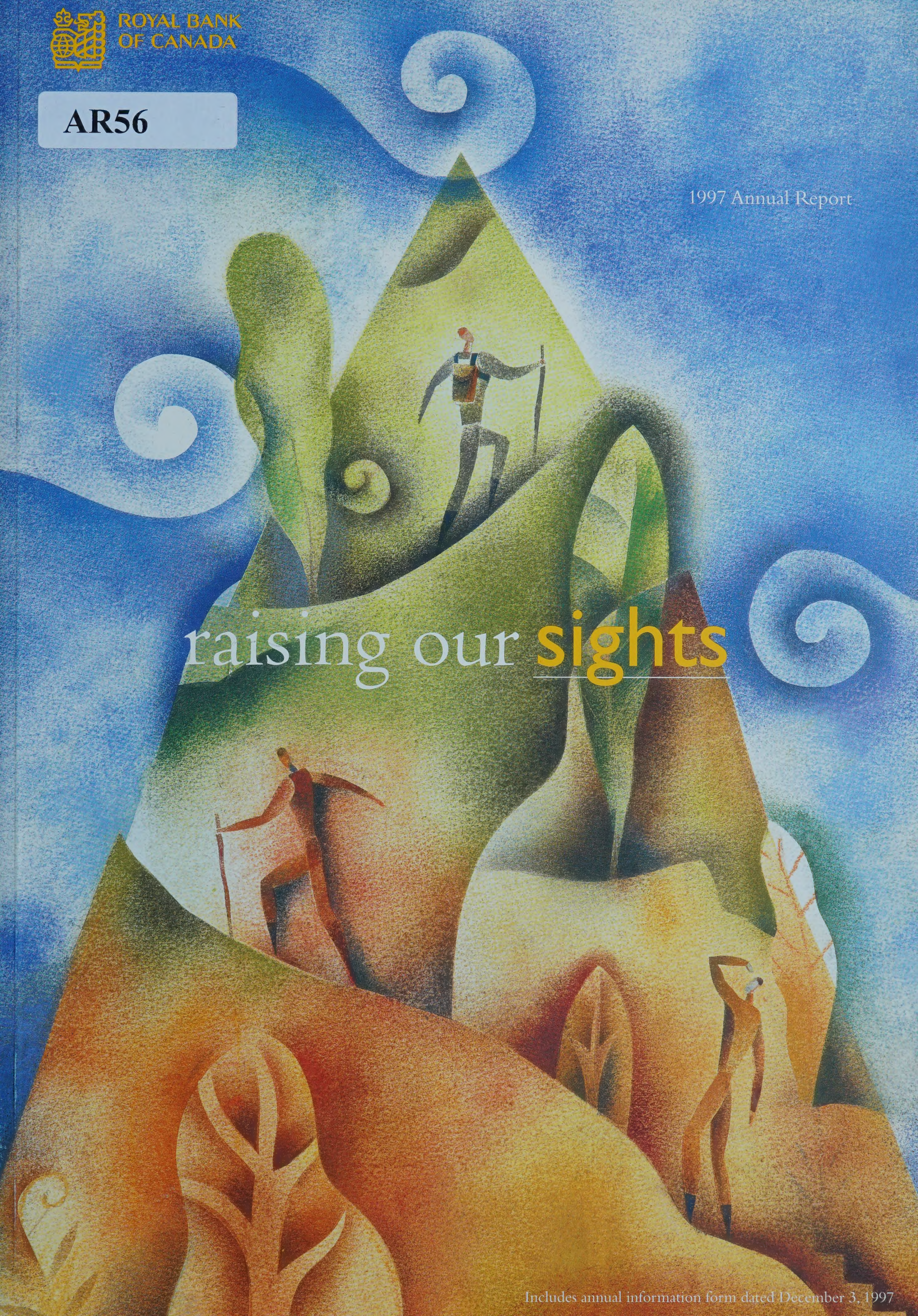
ROYAL BANK OF CANADA

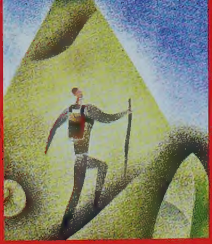
1997 Annual Report



raising our sights

Includes annual information form dated December 3, 1997

what's inside



intro

our businesses

md&a

financials

other

who we are

Royal Bank is Canada's largest financial institution as measured by market capitalization, revenues and net income. We have leading positions in most Canadian financial services markets and operations in 36 countries. We serve nearly 10 million individual and business customers around the world.

In Canada, we have leading market shares in residential mortgages, personal loans and deposits, and business loans. We are the largest money manager and the third largest provider of mutual funds (first among bank-owned funds). Royal Bank owns the largest and most profitable investment dealer, RBC Dominion Securities, and the second largest discount broker, Royal Bank Action Direct, and is a significant provider of creditor life and disability, individual life and travel insurance.

Our domestic delivery network includes more than 1,400 branches, 4,200 automated banking machines, 570 self-service account updaters, and 84,000 point of sale merchant terminals. With 1.3 million customers, *Royal Direct* is among the world's largest alternative delivery channel providers, giving clients access to services via telephone, personal computer and the Internet.

Internationally, corporate and investment banking, trade finance, correspondent banking, treasury and securities custody services are provided to business customers. The bank has a retail network in the Caribbean and substantial global private banking operations. Our international network includes 105 offices in 36 countries.

The cover of this annual report depicts a mind-set which is prevalent throughout our organization – despite our leadership position and long string of successes, we are never content to stand still. Our focus on higher targets and standards is covered in the financial and operational discussions on these pages. Small captions like this one throughout the report show specific examples of how Royal Bank is raising its sights.

Highpoints

Anywhere, anytime banking

➤ Released *Royal Direct PC*™ Banking with *Managing Your Money* software, the only fully-integrated financial management program offered by a Canadian financial institution. ➤ *Royal Direct*™ multi-channel service reached the 1.3 million customer mark, making it the world's largest self-enrolled alternative delivery channel banking provider. ➤ Introduced a new service which allows customers to apply for personal loans by phone in a matter of minutes. ➤ *Mondex*™ electronic cash marked its official Canadian launch in Guelph, Ontario and commercialized the first monetary consumer transaction utilizing smart card technology in North America. ➤ With the participation of IBM and VeriFone Inc., implemented the first Canadian open system for secure credit card payments over the Internet, based on the internationally-recognized Secure Electronic Transaction (SET) protocol. ➤ Launched *Tradeview*™, a suite of new electronic trade products to help Canadians engaged in international trade do business from anywhere in the world, any time of day.

Anticipating consumer needs

➤ Royal Bank *Action Direct*™ discount brokerage introduced *Action Direct Value RSP*™ which lets Canadians broaden their retirement savings plan portfolios by adding fixed income investments to 700 mutual funds and guaranteed investment certificates (GICs). ➤ Added two new funds to the *Royal Mutual Funds*™ family of 27 no-load mutual funds – *Royal Premium Money Market Fund*™ and *Royal Monthly Income Fund*™. ➤ Launched Canada's first *Audio Banking Machine*™, providing easy access for customers who are blind, are partially sighted, or prefer to do their banking via a friendly interactive voice system. ➤ Introduced purchase security and extended warranty insurance features to Royal Bank and Royal Trust debit cards. ➤ Launched seven new GICs targeted to income-oriented clients such as seniors. ➤ Introduced live Internet chats on car loans, RSPs and other financial subjects which provided consumers with valuable advice from Royal Bank experts.

Funding growth

➤ Established a Toronto-based merchant banking subsidiary, RB Equity Partners Limited, with an initial capital commitment of $500 million, to originate and structure large, complex transactions. ➤ Committed an additional $200 million of capital to the bank's wholly-owned venture capital subsidiary, Royal Bank Capital Corporation, bringing its capital base to $350 million. The additional capital was aimed at financing the growth of small and medium-sized Canadian companies.

➤ Created a subsidiary, Royal Bank Canada Growth Co., with an initial $30 million investment, to promote the creation of companies in growth sectors such as life sciences, information technologies and advanced materials and manufacturing.

Global gains

➤ Expanded presence in the United States with a representative office in Houston to develop the natural linkages between oil and gas companies in the U.S. and their extensive Canadian activities.

➤ Royal Trust *Global Securities Services*™ was ranked number one in the world for its major and emerging networks by leading industry observer *GSCS Benchmarks*.

Investor milestones

➤ Increased the quarterly common share dividend in the first quarter from 34 to 37 cents and in the third quarter to 39 cents. ➤ The common share price closed the fiscal year at $75.35, up 70% from a year earlier.

➤ Total return to common shareholders was 74%.

Banking for business

➤ In a new strategic alliance with AT&T Canada, planned the introduction of Internet-based financial services to approximately 380,000 business banking customers.

➤ Teamed up with AT&T Capital Canada to offer, by phone, fax, or mail, *Royal Business Lease*™ and *Royal Business LeaseLine*™ which feature simple and fast access to credit and a wide choice of equipment financing options in the $1,000 to $50,000 range.

➤ Canada's first card-based line of credit, *Royal Bank CreditLine for small business*™, extended authorized credit of $244 million one year after its launch in September 1996.

1997

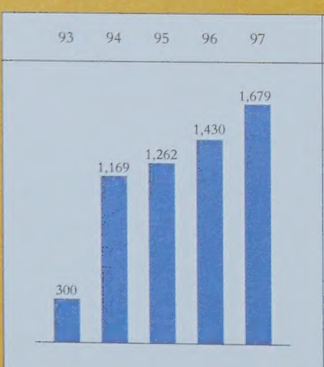
Acquisitions, joint ventures and sales

➤ Purchased the institutional and pension custody business of Montreal Trust and Scotiabank. With this transaction, Royal Trust acquired approximately $120 billion of client assets under administration, making the bank the tenth largest custodian in the world and reinforcing its number one position in Canada.

➤ Symcor Services Inc., the co-sourcing joint venture formed to handle cheque and information processing for Royal Bank and two other major Canadian banks, completed its first year as a separate company. ➤ Sold the Payroll Technologies business to ADP Canada, a wholly-owned subsidiary of Automatic Data Processing, Inc. The two companies also formed a strategic marketing alliance to provide enhanced payroll and human resource information services to the bank's business customers in Canada. ➤ Structured an asset-backed commercial paper program that enabled the bank to securitize $1.5 billion of credit card receivables. ➤ Reached an agreement with HB Group Insurance Management Limited to purchase the technology, systems and expertise to develop a direct response property and casualty insurance operation.

	% GROWTH 1997/1996	1997	1996	1995	1994	1993
Earnings *(For the year ended October 31)*						
Gross revenues *($ millions) (1)*	17%	$9,311	$7,941	$7,317	$7,391	$6,550
Provision for credit losses *($ millions)*	(14)	380	440	580	820	1,750
Non-interest expenses *($ millions)*	18	6,053	5,112	4,657	4,661	4,415
Net income *($ millions)*	17	1,679	1,430	1,262	1,169	300
Return on assets	–	.70%	.70%	.69%	.70%	.21%
Return on common shareholders' equity	170 b.p.	19.3%	17.6%	16.6%	16.8%	2.4%
Balance sheet *(As at October 31) ($ millions)*						
Total assets	6%	$244,774	$231,498	$196,030	$173,079	$164,941
Loans	15	156,267	135,791	119,577	115,386	116,469
Deposits	7	173,229	161,817	143,491	135,815	130,399
Subordinated debentures	17	4,227	3,602	3,528	3,481	3,410
Preferred shares	2	1,784	1,752	1,990	2,266	2,248
Common shareholders' equity	12	8,606	7,662	7,042	6,323	5,682
Capital ratios *(As at October 31)*						
Tier 1 capital ratio	(20)b.p.	6.8%	7.0%	6.9%	6.4%	5.9%
Total capital ratio	60 b.p.	10.0	9.4	9.8	9.6	9.3
Common equity to risk-adjusted assets	(20)b.p.	5.8	6.0	5.8	5.3	4.9
Common share information *(For the year ended October 31)*						
Shares outstanding *(thousands)*						
– end of year	(1)%	308,335	310,529	314,155	314,155	314,155
– average	(2)	308,906	314,121	314,155	314,155	314,155
Earnings per share	22	$5.01	$ 4.09	$ 3.49	$ 3.19	$ 0.46
Dividends per share	14	1.52	1.33	1.18	1.16	1.16
Share price – High	72	76.45	44.40	31.38	31.88	28.88
– Low	48	44.00	29.75	25.88	25.13	22.00
– Close – October 31	70	75.35	44.30	30.13	28.38	27.25
Book value per share – October 31	13	27.91	24.67	22.42	20.13	18.09
Market capitalization *($ billions)*	68	23.2	13.8	9.5	8.9	8.6
Number of: *(As at October 31)*						
Employees – Total	6%	58,133	54,728	55,721	55,987	60,064
Full-time equivalent	5	50,719	48,205	49,011	49,208	52,745
Service delivery units						
Domestic	(3)	1,453	1,493	1,577	1,596	1,731
International *(2)*	2	105	103	105	97	95
	(2)	1,558	1,596	1,682	1,693	1,826
Automated banking machines	1	4,248	4,215	4,079	3,948	3,981

(1) Taxable equivalent net interest income and other income.
(2) International service delivery units include branches, representative offices, agencies and subsidiaries.

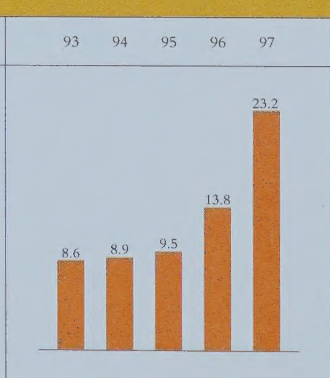


NET INCOME
($ millions)

Record earnings

COMMON SHARE PRICE
($, at October 31)

Top-performing bank stock



MARKET CAPITALIZATION
($ billions, at October 31)

Market cap 36% higher than #2 Canadian bank

BOOK VALUE PER SHARE
($, at October 31)

Book value up 13%

Peak performance for shareholders

Overview Royal Bank is committed to providing superior rates of return to its shareholders. During 1997, the bank:

- raised its quarterly dividend by three cents in the first quarter to 37 cents, and an additional two cents to 39 cents in the third quarter
- repurchased 4.1 million common shares for $198 million, representing 1.4% of shares outstanding

The bank remains committed to enhancing shareholder value by setting and meeting medium term (3-5 year) financial goals, including those for return on equity and dividend payout. The bank also closely tracks its one-year total return to shareholders and growth in earnings per share, both of which are important measures for shareholders. Objectives for 1998 are provided on pages 9-10.

Key goals

Return on common shareholders' equity (ROE)

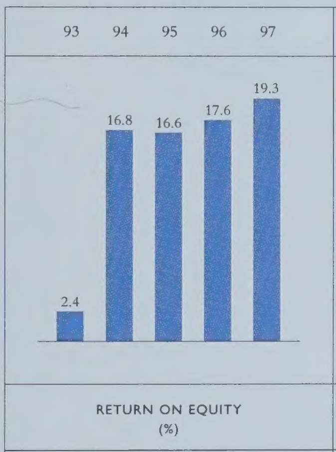
1997 Target: 16-18%

Performance: ROE was 19.3%, up from 17.6% in 1996, reflecting growth in high-return businesses. ROE is a key measure of performance for each business and important for determining employee bonuses. For the medium term (3-5 years), the bank has raised its ROE target to 17-19%.

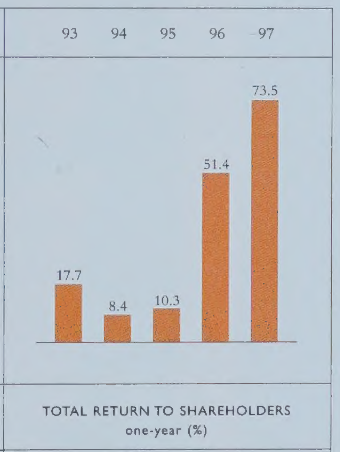
Dividend payout ratio

1997 Target: 30-40%

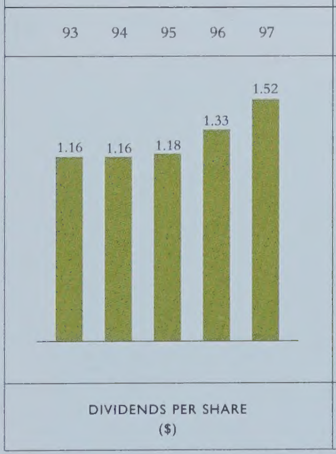
Performance: The dividend payout ratio in 1997 was 30.3%. Dividends per common share were $1.52, up 14% from 1996, reflecting a three cent increase in the first quarter and an additional two cent increase in the third quarter of 1997.



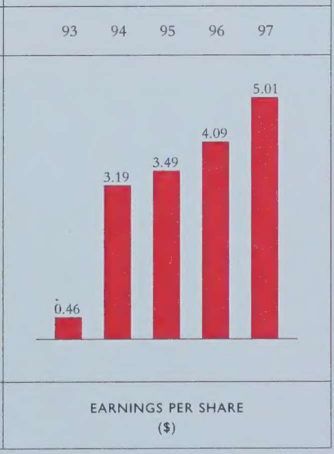
RETURN ON EQUITY (%)



TOTAL RETURN TO SHAREHOLDERS one-year (%)



DIVIDENDS PER SHARE ($)



EARNINGS PER SHARE ($)

Other indicators

Total return to common shareholders (one-year)

1997 Target: A one-year total return in the top quartile of the TSE Banks and Trusts Index.

Performance: Royal Bank was the number one performer in the index, with a one-year total return of 74%. This exceeded the 61% return for the TSE Banks and Trusts Index.

Earnings per share

1997 Target: Annual growth of 10%+

Performance: Earnings per share were up 22% from a year ago, and 500 basis points greater than the percentage growth in net income due largely to the repurchase of 4.1 million shares in the first half of the year.

New sights mean new heights. In addition to a higher ROE target, we have raised our sights by aiming for higher growth in earnings per share of 10-15% in 1998.

Our Vision

is to be Canada's premier financial services provider, with committed people working as a team to create customer and shareholder value.

Vision Focus Priorities

Our Focus

is on improving performance in each of our businesses to achieve consistent and superior returns for our shareholders.

Our Strategic Priorities

are to grow and diversify our revenues, improve our efficiency, maintain a high quality risk profile, effectively manage the balance sheet and capital, and provide opportunities for capable, committed employees.

raising our sights

Some financial highlights for the year:

Return on common shareholders' equity was 19.3%, up significantly from last year's 17.6% and also above our target range for 1997 of 16-18%. Earnings per share of $5.01 were up 22% from 1996. Revenues rose 17% to $9.3 billion. Credit quality improved with net impaired loans declining to .1% of total loans and bankers' acceptances from .4% in 1996. The bank added $50 million to the general provision during the fourth quarter, raising it to $750 million.

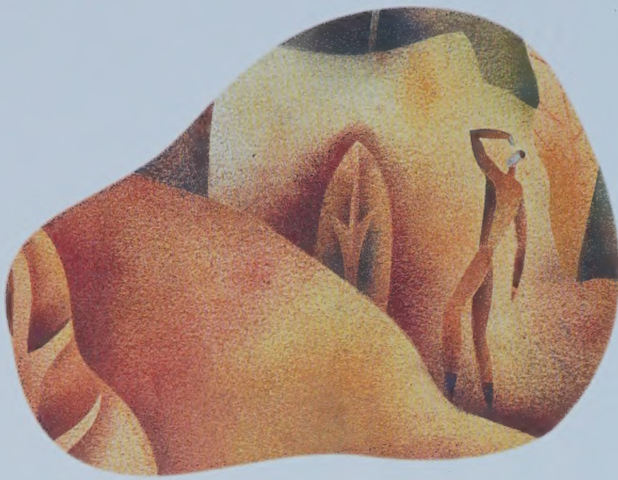
Shareholder returns

Our shareholders enjoyed a total return of 74% this year, following last year's 51% return. The share price alone rose by 70% between October 31, 1996 and 1997 – the highest gain in the TSE Banks and Trusts Index. The Index itself was up 56%, and the overall TSE300 up 22% in that period. We also raised the common share dividend twice during fiscal 1997, for increases of 14% over 1996 and 29% over 1995.

We benefited this year from a strong Canadian economy, described on page 18. Against a backdrop of low interest rates, low inflation and healthy capital markets, we recorded solid growth in personal and small business lending, and excellent performances from fee-based businesses such as mutual funds, global private banking, securities custody, investment management, retail brokerage, and investment banking and trading. This allowed other income to rise to 46% of total revenues from 41% in 1996. We also gained market shares in mortgages, personal loans and commercial loans through our sales and service initiatives and new product introductions.

Overall, earnings per share were up 22%. And, since much of the earnings growth occurred in high-return businesses, our return on equity (ROE) increased to 19.3% from 17.6% in 1996. The wealth management segment, which accounted for 14% of earnings, had an ROE of 49.7%, while personal and commercial banking, with a 61% contribution to total net income, recorded a 27.9% ROE.

The blueprint for accelerating growth of the sales culture at Royal Bank, our Managing Priority Markets initiative, is already showing it has the legs for the climb. Sales-focused approaches in 250 high-impact branches have already yielded growth in business of about 1% per month, a 5% increase in customer satisfaction and a 10% rise in employee capability. Imagine the possibilities when other branches join the climb.



Raising our sights for all our stakeholders

Are we pleased with our performance? Pleased, yes. But complacent, never. Our market capitalization ranking among North American banks, although up from 17th last year to 13th now, is not satisfactory. We want to raise our ranking. Also, competition has never been tougher than it is today. Banks worldwide are positioning themselves for long-term growth and leadership. This is why we continue to raise our sights – to do better for our shareholders, our customers, our employees and our communities. Because we're never content to stand still.

For our shareholders, we have raised the medium-term goal for ROE to a range of 17-19% from 16-18%. We want to continue to provide top-quartile returns to our shareholders by continuing to lead the industry in ROE, earnings growth and valuation. We aim to do so by growing businesses with high ROEs and high P/E multiples both in Canada and internationally, by improving the efficiency ratio to 59.5% within 3-5 years, by maintaining superior asset quality, and by effectively managing our balance sheet and capital.

For our customers, we are raising the targets for customer satisfaction and providing our employees with the training, technology and time to devote care and attention to their clients. We are also expanding delivery channels and products to meet clients' needs for speed, convenience and returns.

For our employees, we are building a partnership which will engender the commitment, professionalism and flexibility our customers expect. Only committed employees can deliver the performance we need to satisfy customers and shareholders. In addition to leading-edge work/family/life, gender gap and diversity policies and programs, our employees at all levels receive annual incentive compensation based largely on the bank's return on equity and their individual contributions. In 1997, we added customer satisfaction and performance relative to the competition as further criteria for the payouts. We also have share ownership requirements for our senior executives. In addition, our Board members are each required to hold close to $180,000 worth of Royal Bank common shares.

For our communities, we continue to support and encourage them in a variety of ways as an employer, taxpayer, substantial purchaser of goods and services, and corporate donor. Further information can be found on page 108.

"to do better for our shareholders, our customers, our employees and our communities, we will never stand still"

Objective 1:
Provide a total return to common shareholders that is in the top quartile of the return for the TSE Banks and Trusts Index.

Performance:
74%, in top quartile and highest in the sector.

Objective 2:
Grow revenues by 5% in 1997 and enhance market shares in traditional banking products.

Performance:
Revenues up 17% from 1996. Compared to a year ago, market shares (of all financial institutions in Canada) up 130 basis points to 16.4% for personal loans, up 50 basis points to 14.4% for residential mortgages, but down 50 basis points to 16.6% for personal deposits.

Objective 3:
Improve efficiency ratio to at least 63.4% from 64.4% in 1996.

Performance:
65.0%, but 64.0% excluding one-time items and a $65 million restructuring charge for the acquisition of Richardson Greenshields, and 61.8% on further excluding all expenses and revenues for RBC Dominion Securities.

Objective 4:
Lower the ratio of provision for credit losses to average loans and bankers' acceptances from the 1996 level of .34%.

Performance:
.25%

97 performance versus objectives

1997 performance versus other goals

Goal: Return on equity of 16% to 18%
Performance: 19.3%

Goal: Earnings per share growth of 10%+
Performance: 22%

Goal: Dividend payout ratio of 30% to 40%
Performance: 30.3%

98 objectives

Objective 1:
Total return to common shareholders
Provide a total return to common shareholders that is in the top quartile of the return for the TSE Banks and Trusts Index.

Objective 2:
Earnings growth
Grow earnings per share by 10-15%.

Objective 3:
Revenue growth
Grow total revenues by 5-10% and enhance market shares in traditional banking products.

Objective 4:
Efficiency
Improve the efficiency ratio by 200 basis points to 63.0%.

Objective 5:
Portfolio quality
Achieve a ratio of provision for credit losses to average loans and bankers' acceptances close to this year's level of .25%.

Objective 6:
Balance sheet and capital management
Grow risk-adjusted assets at a pace that will permit us to attain, by the first half of 1998, capital ratio targets of 6% for common equity to risk-adjusted assets and 7% for the Tier 1 capital ratio.

Objectives for 1997 and 1998

As shown on page 9, we met all the objectives we had established for 1997, with the exception of the efficiency ratio target of 63.4%. We failed to meet this target due to several one-time items this year including a restructuring charge for the acquisition of Richardson Greenshields, and unexpectedly strong growth at RBC Dominion Securities, which has a high efficiency ratio like its peers in the industry. Excluding these factors, the efficiency ratio was 61.8% this year.

Our focus on growing businesses with high ROEs, but high efficiency ratios, such as those in the wealth management and personal and commercial banking segments shown in the table below, has led us to amend our 3-5 year efficiency ratio target to a more achievable 59.5% from the earlier 58% goal.

For 1998, we have set more aggressive targets for growth in revenues and earnings and for efficiency improvement than those established for 1997. We have also set targets for capital ratios and intend to more closely manage growth in risk-adjusted assets.

BUSINESS SEGMENT CONTRIBUTION	1997 contribution to		
%	Net income	ROE	Efficiency(1)
Personal & commercial banking	61%	27.9%	64.4%
Wealth management	14	49.7	71.5
Corporate & investment banking	20	18.7	44.0
Other	5	2.5	n/a
Total	100%	19.3%	61.8%

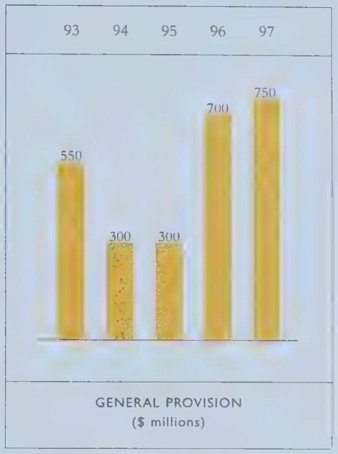
(1) Excluding one-time items and RBC Dominion Securities.

"for 1998, we have set more **aggressive targets** for **growth** in revenues and earnings, and for efficiency improvement"

Supporting a competitive financial services sector

New technology, globalization and intensified competition are shaping Canada's financial services industry. Influencing its direction will be government policy, which in turn will draw upon the recommendations of the Task Force on the Future of the Canadian Financial Services Sector. Royal Bank has submitted a series of recommendations to the Task Force. We believe that Canadian regulatory policy should be flexible and should allow financial institutions to respond to rapidly changing market conditions. We also believe in markets that are open to competition and in the principle of a level playing field. Accordingly, subject to appropriate risk control measures, all financial institutions should have direct access to the payments system through in-house deposit taking powers. Similarly, all financial institutions should have full powers in the areas of insurance distribution and auto leasing. Finally, we have suggested elimination of the implicit government policy of "big shall not buy big", so that mergers would not automatically be viewed as negative. A flexible financial services industry will benefit consumers and shareholders alike.

A broader knowledge base means a more direct path to the top. Personal Learning Network, the Group's multimedia, PC-based distributed learning platform, will shift 70% of training to the workplace on a just-in-time basis. Over all, we invested more than $100 million on training employees in 1997 to grow our knowledge and raise our collective sights.



Further raised general provision

Our strategic priorities

The pursuit of our objectives of revenue growth in high-return businesses and geographic markets, efficiency enhancement, superior asset quality, and effective balance sheet and capital management should allow us to generate solid returns for our shareholders.

Revenue growth and diversification

We intend to grow high-ROE fee-based businesses, as we have done in the past. Our recent acquisitions, in securities custody and retail brokerage (see page 19), have been in such businesses. In the more traditional business lines, we see further opportunities in card services, personal lending and banking for small businesses. Outside Canada, we will focus largely on the wealth management businesses (see page 15).

Efficiency enhancement

There are a number of initiatives in place to take costs out of our expense base and move us towards our 3-5 year target of 59.5% for the efficiency ratio. They include more efficient procurement practices, reconfiguration of our branch system, and consolidation of background functions. Of the $300 million of cost savings expected by the year 2000, about $140 million have already been realized. The alternative delivery channels should also lower costs over time.

Superior asset quality

Our lending practices remain conservative, as demonstrated by the continued strength of our loan portfolio and low ratios for problem loans and credit losses. A further $50 million addition to the general provision this year has raised it to $750 million. We expect the ratio for credit loss provisions to remain relatively stable in 1998.

Balance sheet and capital management

We aim to reach our capital targets quickly through internal capital generation and careful growth in risk-weighted assets. Once we achieve this, we will evaluate the re-instatement of the share repurchase plan.

Looking ahead

With our strong shareholder orientation, solid fundamentals and clear objectives, we believe that we can continue to generate superior returns for you, our shareholders.

John E. Cleghorn
Chairman & Chief Executive Officer

enhancing shareholder value: ten steps to the TOP

1

Compete from a position of strength

Sizeable presence in Canada, leading market shares, strong brand equity

- first among Canadian financial institutions in market capitalization, revenues and net income
- leading market shares in Canada in residential mortgages, personal loans and deposits, and business loans
- Canada's largest private client and institutional money manager, securities custodian, full-service retail broker and creditor life insurance provider
- number 2 discount broker and number 3 mutual fund provider (#1 among banks)
- committed to protecting and growing share of these businesses
- among highest debt ratings in North America, with a senior debt rating of Aa2 from Moody's

2

Achieve strong, consistent earnings performance

Matching size with superior results

- four straight years of record earnings
- earnings per share growth of 22% in '97 versus an annual target of 10%+
- return on equity of 19.3% in '97, up from 17.6% in '96 and compared to a revised medium term (3-5 year) target of 17-19%

3

Focus growth on high-ROE, high-P/E multiple businesses

Focusing investment on high-potential segments

- wealth management and personal and commercial banking had ROEs of 49.7% and 27.9%, respectively, and together accounted for 75% of total net income in fiscal '97
- money management, mutual funds, retail brokerage, card services, insurance and personal financial services have high returns and growth prospects, and are intended to be grown aggressively
- recent acquisitions have been mainly in wealth management:

1997 – Richardson Greenshields – $17 billion of private client assets and 580 investment advisors

1997 – Montreal Trust's and Scotiabank's institutional and pension custody business ($120 billion of assets under administration)

1996 – TD Bank and Trust's institutional and pension custody business ($47 billion of assets under administration)

1993 – Royal Trust (Canada's largest money manager)

4

Extend leadership in traditional services

Moving ahead of the pack

- leading market shares in residential mortgages and personal loans rose by 50 and 130 basis points, respectively, in '97
- growth of 11% in residential mortgages, 20% in student loans and 21% in auto loans
- personal financial services and business banking are profitable cornerstones of the franchise and are committed to moving further ahead of the pack

5

Invest in anywhere/anytime banking

Serving customers on their terms

- telephone banking customers up to 1.3 million by year-end '97
- 98,000 PC banking customers between launch in December '96 and October '97
- Internet options include routine banking, car loans, residential mortgages, and trade finance products
- the *Mondex* "stored-value" card launched in Guelph, Ontario in '97
- new uses for ABMs introduced in '97, including traveller's cheques (some locations) and credit line access
- growing mobile commissioned sales force in mortgages and investment and retirement planning. By year 2000, retirement planning representatives expected to double from current level of 225, and mortgage representatives expected to grow 10–12% annually from current 228

6

Selectively expand international operations

Seeking out profitable opportunities

- focusing on high-growth markets and businesses (see page 15)
- global private banking network unique among Canadian financial institutions and targeted for growth
  - 27 offices in 22 countries
  - $37 billion in assets under administration
- aim to be among the world's top 20 trade banks with a focus on financing receivables, structured trade commodity finance and trade processing

7

Improve efficiency

Many initiatives under way

- 59.5% revised medium-term (3–5 year) goal
- initiatives under way to remove $300 million from cost base by year 2000, including administrative and back-office rationalization ($140 million already achieved, including purchasing cost savings of $84 million)
- restructuring network (combining units of Royal Trust, Royal Bank and RBC Dominion Securities) and reducing floor space and rationalizing back-offices
- alliances to share costs (Integrion Financial Network and Symcor Services)

8

Control risk and maintain strong reserves

Risk management now a competitive strength

- net impaired loans represent .1% of total loans and bankers' acceptances, down from .4% a year ago
- consumer book has held up well, with net impaired loan ratio for residential mortgages and credit card delinquency ratio down from the year-end '96 levels
- credit losses of .25% of average loans and bankers' acceptances in '97, down from .34% in '96
- general provision raised by $50 million to $750 million at October 31, '97

9

Manage balance sheet and capital

Rewarding investors for choosing Royal Bank

- four quarterly dividend increases in the last two years, representing total growth of 34%
  Q4/95: 2 cents or 7% to 31 cents
  Q2/96: 3 cents or 10% to 34 cents
  Q1/97: 3 cents or 9% to 37 cents
  Q3/97: 2 cents or 5% to 39 cents
- repurchased 7.8 million common shares from Sept. '96 to April '97 for $368 million – representing 2.5% of shares outstanding
- securitization, mortgage insurance, internal capital generation and debenture financings supported capital ratios

10

Support a superior workforce

Training, motivating employees

- provide employees at all levels with the training, technology and time to devote attention to customers
- over $100 million invested in employee training and development programs in 1997
- employees own 4% of Royal Bank common shares through the *Royal Employee Savings and Share Ownership Plan*™ to which 89% of eligible employees belong
- annual bonus program available to employees at all levels and is largely based on ROE and employee performance
- minimum share ownership levels for board, CEO & senior executives

During 1997, we were frequently asked the following questions by investors and analysts. Here are our answers.

1. Are you planning to split your common shares?

We are not contemplating a stock split for several reasons. First, there is no hard evidence that a stock split enhances shareholder value on a sustainable basis. Second, there are significant costs incurred in splitting shares, such as the costs of issuing and mailing additional share certificates and listing the additional shares with the various stock exchanges. Third, a stock split can entail higher brokerage commissions for the buyer of the shares, who would be buying twice as many shares in the case of a two-for-one split.

2. Which of these avenues will Royal Bank pursue to enhance shareholder value – dividend increases, share repurchases or acquisitions?

We don't view the three as mutually exclusive. We have a dividend payout target of 30-40% and as we are towards the lower end of that target, we expect that if earnings rise, so will dividends. We halted our share repurchase program as the strong performance of the Canadian economy led risk-adjusted assets to rise faster than internally generated capital. Once we reach our capital ratio targets, we will reconsider the merits of a share buyback program. As for acquisitions, we constantly evaluate them and proceed with those that support our growth strategy and meet our return targets.

3. How prepared are you for the year 2000?

We commenced working on the year 2000 issue in early 1995 and are planning to complete the project by December 31, 1998. We started a working group for the Canadian banks in July 1996, which meets monthly and has a member from the Bank of Canada. Royal Bank had more than 500 software applications to change and test and 40% of those have been converted. All fundamental systems including those relating to deposits, loans, mortgages, credit cards, mutual funds, custody, stock broker accounts and banking machines are being converted.

4. What is your international strategy?

Our international presence and strengths are outlined below. We derive about 30% of our core earnings from outside Canada and our objective over the longer term is to raise that proportion through selective international expansion. We expect to do so largely in fee-based businesses such as investment management, global private banking, brokerage, specialized insurance products and trade finance. Our priority markets for expansion are the United States and Europe. We will watch Asia and Latin America closely and may grow there in a cautious, selective fashion. Our acquisition philosophy is to acquire, at reasonable prices, companies in predominantly fee-based businesses that would provide good revenue and cost synergies and fairly rapid contribution to earnings.

United States

More than 10% of Royal Bank's $213 billion of earning assets are located in the U.S., where the bank provides corporate and investment banking, trade finance, treasury and capital market products to U.S. multinational corporations and financial institutions and subsidiaries of Canadian corporations. Royal Bank ranks among the top 10 in both U.S. loan syndications and foreign exchange sales. Foreign exchange sales have more than doubled to U.S.$120 billion from 1993. Offices are located in New York, Chicago, Los Angeles, Boston, Miami and Houston.

Europe, Middle East, Africa

Royal Bank has the largest presence in Europe of any Canadian bank and is the only one with a presence in every major market in Europe. In addition to offices in the U.K., Germany, Spain, France, the Netherlands and Switzerland, the bank operates in South Africa and the U.A.E. The bank provides global private banking, corporate banking, treasury, investment banking, global securities and correspondent banking services in this region.

Caribbean

Royal Bank has a 100-year tradition and major presence in the Caribbean with more than 60 units and over 1,000 employees. Services offered include brokerage, global private banking, reinsurance, trust services and retail banking. The efficiency ratio in this market is much better than that of the overall group.

Latin America

From offices in Argentina, Brazil, Mexico, Venezuela, Uruguay, Chile and Colombia, Royal Bank provides services to leading financial institutions and large corporations throughout South and Central America. Services are focused in correspondent banking, trade finance, treasury, multinational banking and global private banking.

Asia Pacific

The bank has established operations in 8 countries – Japan, Hong Kong, China, Singapore, South Korea, Taiwan, Thailand and Australia, where it is selectively focused in areas such as short-term financing of inter-regional trade, global private banking, corporate and investment banking and trading.

Financial services 1997 insights and outlook

Canadian banks traversed another year of rapid change in 1997 as the following forces that have made the '90s such a dynamic decade for financial services providers continued:

- Changing customer needs and expectations
- Technological developments
- Globalization
- Increased competition
- De-regulation and consolidation

Changing customer needs

Financial services providers are having to respond to more sophisticated and demanding customers. Due to changes in lifestyle and demographics, clients are expecting their banks to offer greater convenience in conducting transactions and greater expertise in financial planning.

Increasingly strapped for time, customers want banking services to be available anywhere, anytime. Banks therefore are continuing to emphasize "virtual banking", into which new entities such as ING Canada and Vancouver-based Citizens Bank entered this year.

At Royal Bank, *Royal Direct*™ offers customers round-the-clock banking by telephone, Internet or personal computer (PC). The latter includes the *Managing Your Money* personal finance software. *Royal Direct* is now one of the fastest growing telephone banking programs in the world, with customers conducting more than 2.5 million calls per month. PC/Internet home banking attracted 98,000 customers between its launch in December 1996 and October 31, 1997.

Royal Bank customers already do 86% of their routine banking tasks electronically (including by automated banking machines), and this proportion is expected to exceed 90% by the year 2000.

Ten major Canadian financial institutions are participating in *Mondex* – Canada's "smart card" initiative to provide "electronic cash" as a convenient alternative to notes and coins. The pilot project was launched in Guelph, Ontario this past year.

Meanwhile, most of the bank-owned discount brokerages launched on-line trading services this year. Royal Bank *Action Direct* offered on-line trades at a flat rate of $29 through *PCAction*™.

Many of today's investors are baby-boomers, who seek retirement planning advice as well as more diversified investment products. In response, banks are encouraging their branch personnel to acquire financial planning expertise and shift from a transaction to a sales culture. They are investing heavily in retraining personnel for this transition. Royal Bank considers investments in programs to enhance employee professionalism and knowledge as a key strategic imperative to help employees meet the changing expectations of customers. Royal Bank spent over $100 million in 1997 on enhancing the skills of its people, and has launched *Royal Learning Network*™ courses to provide a variety of learning platforms.

Canada's banks are also developing more mutual fund products. *Royal Mutual Funds,* Canada's third largest mutual fund provider, this year launched *Royal Monthly Income Fund*™ and *Royal Premium Money Market Fund*™.

The impact of technology

The development of alternate delivery channels and new financial products has both stimulated, and been furthered by, a technology boom. Technology expenditures are climbing at a compound annual rate of 7% versus only 2% during the first half of the 1990s. From 1995 to 1996, spending on computer equipment by North American banks rose by 20% to $5.2 billion. Royal Bank's technology expenditures total approximately $1 billion per year.

While Royal Bank is committed to remaining at the forefront of technology development, keeping pace with change requires a significant investment. To derive the most value from their high-tech dollars, banks are forming alliances with each other and with leading information technology businesses.

In that regard, Royal Bank this year:

- finalized its partnership with IBM and 15 U.S. banks in the Integrion Financial Network, a consortium that allows the bank to meet customers' increasing demand for electronic banking via a shared, North American common "middleware" framework, while preserving the bank's brand identity and its unique relationship with its customers. Royal Bank is the only Canadian participant in this network.
- announced a strategic alliance with AT&T Canada to provide comprehensive and secure Internet-based financial services together with Internet access to

the bank's 380,000 business banking customers.

➢ moved forward with two other Canadian banks to create Symcor Services Inc., a co-sourcing initiative to handle cheque and information processing for all three institutions. In June, Symcor assumed the management of the banks' 19 processing centres.

Royal Bank was also one of the first companies in Canada to acknowledge the Year 2000 problem – the danger of computer systems problems occurring on January 1, 2000 unless systems and software programs are modified. The bank has had a Year 2000 project for over two years. To galvanize its business and individual customers into action, Royal Bank has also launched an awareness campaign, including a "Year 2000 Conversion Kit" that is downloadable from its Internet web site.

Globalization and competition

The exponential growth of computer power and telecommunications capacity has encouraged the globalization of financial markets. This, in turn, has prompted Canadian banks to seek niche opportunities outside Canada. While the banks cannot be all things to all clients, they are building on existing strengths as they undertake selective initiatives in the United States and other foreign markets.

In the past 12 months, one of Royal Bank's domestic competitors has increased its holdings in Latin American banks; another has added to its presence on Wall Street by acquiring an investment bank and yet another has acquired U.S. and Australian discount brokerage firms.

While actively assessing foreign acquisition candidates, Royal Bank did not find one that was expected to enhance shareholder value. However, to pursue growth, and build on the expertise and contacts developed with Canadian energy companies, it opened a representative office in Houston. It also launched a leveraged finance group in New York. The bank's international strategy is discussed on page 15.

Canada's banks are also preparing for more foreign competition in their domestic market. As well, the U.S. monoline credit card provider, MBNA, has announced plans to enter Canada. Wells Fargo plans to use direct marketing to offer unsecured lines of credit to established small businesses in Canada from its U.S. base. Anticipating such competition, Royal Bank introduced *Royal Bank CreditLine for small business*™, Canada's first card-based line of credit, one year ago. Between its launch in September 1996 and October 31, 1997, CreditLine had extended authorized credit of $244 million.

Industry consolidation

Further integration and consolidation of financial services providers continued in 1997. In the past year, independently owned brokerage firms and trust companies have merged with banks. RBC Dominion Securities acquired full-service broker Richardson Greenshields to become, once again, the largest securities firm in Canada.

Royal Bank made a bid for London Insurance Group, which was ultimately acquired by another Canadian insurer, furthering the consolidation currently under way in the insurance industry. This result did not affect Royal Bank's overall insurance strategy which is proceeding as planned. In the best interest of consumers and shareholders, Royal Bank and other banks are still pressing Ottawa for the right to sell a broad range of insurance products in their branches.

The future of financial services

As the financial services sector consolidates, public concern has focused on issues such as the level of competititon in domestic markets, the powers financial institutions may exercise, and the level of employment in the industry. The federal Task Force on the Future of the Canadian Financial Services Sector, which is due to report by September 1998, is examining these issues. The Canadian Bankers Association (CBA) and each of the six major Canadian banks have outlined their views to the Task Force.

Royal Bank favours a regulatory framework that serves consumers by being open to new domestic and foreign competitors. The myth exists that banks enjoy certain privileges, and Royal Bank has clearly stated that Canada's banks neither seek nor require special protection or privileges.

To this end, the bank supports the recent government announcement permitting foreign banks to establish branches of their parent in Canada. Moreover, the government should not try to resist the increased potential for delivery of cross-border services into Canada; rather, it should devote resources to educating consumers about the risk and their "due diligence" responsibilities. The submission also supports increased competition and consumer choice in the areas of automobile leasing, insurance networking, and payments system access, and in-house fiduciary powers.

On ownership policy, Royal Bank urges that the 10% foreign ownership ceiling for Canadian banks be reviewed. Wider membership in the payments system are encouraged, provided that the attributes of the system that serve Canadians well are not diminished. The bank also favours national regulation of all financial services (for those provinces wishing to participate). Regulated institutions, however, should have the flexibility to pursue their unique strategic business plans with the corporate structure of their choice.

Royal Bank's position is in keeping with the rest of the industry, as denoted in the CBA's submission.

The Task Force's recommendations, and the federal Government's action on them, will have a major impact on the financial services landscape as we enter the new century.

The Canadian economy

Canada's fundamentals have seldom been better, and we expect Canada to lead the G7 countries in economic growth over the next couple of years. That said, at the time of writing in early December 1997, storm clouds arising from the Asian crisis make it unusually difficult to predict the future course of the Canadian and global economies. Notwithstanding these uncertainties, our attitude towards the Canadian economy remains one of guarded confidence.

➤ Real GDP growth in Canada will be at least 3.5% in 1997, up from 1.5% last year. This increase is due primarily to greater strength in the domestic economy, both households and businesses. Largely as a result of low interest rates, there has been a strong upsurge in both capital spending by business and consumer spending by households. Business has been buoyed by these low interest rates, as well as by improved fundamentals in the areas of low inflation and a radical improvement in the country's fiscal position. Households have responded with higher retail sales and a firming trend in purchases of big-ticket items from cars to houses. Looking forward to 1998, we expect this domestic momentum to carry us through to another year of good economic growth, although the economy will also be challenged by the fallout of events in Asia.

➤ At the time of writing, Canadian long-term yields are below 6%, while three-month treasury bill rates have been edging up to near 4%. We see short-term interest rates edging up further but only by relatively modest amounts. At the long end, we see interest rates flat or slightly lower as a result of continuing low inflation, moderate growth, and a "flight to quality". In these turbulent times, we can be thankful that our fiscal house has been put in order.

➤ Owing to a perceived softening of commodity prices and other factors, the Canadian dollar in early December 1997 was hovering just above 70 cents U.S. While this dollar weakness cannot be seen as a lack of confidence in Canada (witness the low long term interest rates just described), we think the Canadian dollar will remain weaker than had been expected prior to the Asian crisis. We anticipate a modest strengthening of the Canadian dollar as a consequence of modest Bank of Canada tightening.

➤ As a consequence of Canada's continuing high unemployment and the disinflationary effects of the Asian crisis, we anticipate that Canadian inflation will remain below the midpoint of the Bank of Canada's 1-3% target range.

Caution regarding forward-looking statements

Royal Bank, from time to time, makes written and oral forward-looking statements, including in this Annual Report, in other filings with Canadian regulators or the U.S. Securities and Exchange Commission, in reports to shareholders and in other communications. Such forward-looking statements include objectives for 1998 and the medium-term, and strategies to achieve those objectives, set forth herein.

By their very nature, forward-looking statements involve inherent risks and uncertainties, both general and specific, and risks exist that predictions, forecasts, projections and other forward-looking statements will not be achieved. Royal Bank cautions readers not to place undue reliance on these statements as a number of important factors could cause actual results to differ materially from the plans, objectives, expectations, estimates and intentions expressed in such forward-looking statements. These factors include, but are not limited to, changes in economic conditions including fluctuations in interest rates and inflation, regulatory developments, technological changes and the effects of competition in the geographic and business areas where the bank operates.

Royal Bank cautions that the foregoing list of important factors is not exhaustive; when relying on forward-looking statements to make decisions with respect to the bank, investors and others should carefully consider the foregoing factors and other uncertainties and events.

how we've grown: general development of the business

Throughout the 1990s, Royal Bank has transformed itself from an institution delivering traditional banking products to one of North America's largest institutions offering a wider range of financial services. Driving this change are a variety of factors including deregulation of the financial services industry, the bank's focus on increasing fee-based earnings, and increased demand by customers for more comprehensive financial services and alternative delivery channels. To meet these challenges, the bank has acquired full-service brokerage firms (beginning with the purchase of RBC Dominion Securities in 1988), insurance companies, a trust company with wealth management operations, and institutional and pension custody operations. Key acquisitions in the last five years are summarized below.

These acquisitions have contributed to the following trends since 1992:

- Other income has risen to 46% of total revenue in 1997 from 35%
- Capital market fees have increased 229% to $1,172 million from $356 million
- Fees from investment management and custodial services, and from mutual funds, have grown to represent 18% of total other income from 6% in 1992

Higher fees have accompanied a sharp increase in off-balance sheet assets. Assets under management were $68 billion at October 31, 1997, up significantly in the last five years.

During this transition, Royal Bank has maintained its leading position in its traditional businesses. It continues to be ranked number one in residential mortgages, personal loans and deposits, and business loans.

To support this growth and reduce costs, the bank has invested in alternative delivery channels such as telephone banking, PC banking, secure Internet banking, debit cards and stored value cards.

ACQUISITION	KEY BENEFITS (1)
Voyageur Insurance Company – 1993	Canada's largest travel insurance provider
Royal Trust – 1993	Canada's largest money manager Highly ranked in global custody Large mutual fund family Strong in global private banking Upscale banking business
Kidder Peabody's equity derivatives team (acquired by RBC Dominion Securities) – 1995	Broadens product offering to retail, institutional and corporate clients
Westbury Canadian Life Insurance Company – 1996	$90 million in annual premiums Strong balance sheet Innovative products
TD Bank and Trust's institutional and pension custody business – 1996	$47 billion in assets under administration A blue-chip client base Greater economies of scale Incremental revenues
Richardson Greenshields (investment dealer) – 1997	Over $300 million in revenues $17 billion in private client assets 580 investment advisors Strong international capabilities
Montreal Trust's and Scotiabank's institutional and pension custody business – 1997	$120 billion in assets under administration Strong pension and fund manager client base Greater economies of scale Incremental revenues

(1) At time of acquisition.

Competition

As the group has entered and expanded into new lines of business, its competition has grown to include investment dealers, mutual fund providers, money managers, custody service providers, insurance companies, virtual banks and specialty financial service providers. Key competitive factors include types and numbers of products, pricing, distribution and service quality. Additional information on trends and competition in the industry can be found in the "Financial services 1997 insights and outlook" section on pages 16-17 of this report.

organized for the climb

58,000 employees committed to delivering value to shareholders and customers

10 million customers

businesses*

personal & commercial banking

- personal financial services
- card services
- business banking
- insurance

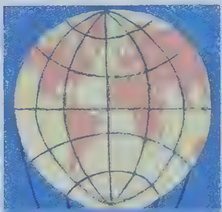
wealth management

- *royal trust*
- *royal mutual funds*
- rbc ds – private client division
- royal bank *action direct* discount brokerage

corporate & investment banking

- corporate banking
- financial institutions & trade
- rbc ds – institutional division

geographies



atlantic
quebec
metro toronto
ontario
manitoba
saskatchewan
alberta & nwt
b.c. & yukon
u.s.a.
bahamas & cayman
barbados & caribbean
latin america
europe
asia

functions

corporate affairs
corporate secretary
corporate treasury
finance
human resources
internal audit
law
ombudsman
operations & service delivery
real estate
risk management
strategic development
strategic investments
systems & technology

committees

group risk
wealth management
business services
technology policy
corporate & investment banking
asia advisory
strategic investments
personal & commercial markets

group council

- comprises group office members and the heads of each of the businesses and major geographic and functional units.
- meets to review the group's performance versus plan, to communicate group-wide issues and to deal with cross-functional matters.

group office

- seven-member team led by the chief executive officer and including five vice-chairmen and the chief financial officer.
- responsible for the group's overall strategic direction, competitive position, market performance, human resource planning, external relations and risk profile.
- provides strategic direction to operating units.
- meets weekly.

* Each business segment (e.g. personal & commercial banking) is supported by an operating committee, with a representative from each business, charged with taking a broad view of the entire customer market and developing integrated customer strategies, marketing, sales and operations. Each business unit (e.g. personal financial services) is responsible and accountable for competitive performance and operational excellence in the market it serves.

results by business segment

We present below the results for 1997 for our major business segments. Page 20 shows the businesses that fall under each of these segments.

personal and commercial banking had a return on equity of 27.9% and accounted for 61% of Royal Bank's net income in 1997. A quarter of the revenues were derived from other income. The efficiency ratio of 63.6% was better than the consolidated ratio for the group. The segment's objective is to further improve this ratio by growing revenues faster than expenses.

corporate and investment banking accounted for 20% of total net income and had a return on equity of 18.7%. Sixty percent of total revenues stemmed from other income. The efficiency ratio was 57.2%. Improving return on equity and overall efficiency continue to be a focus of this segment.

wealth management accounted for 14% of the bank's net income. It recorded a 49.7% return on equity, reflecting the strong returns of the businesses in this segment and the relatively low capital underpinning required for these largely off-balance sheet businesses. Over 80% of revenues were derived from fee income. The efficiency ratio of 77.9% reflected the types of businesses in this segment.

other

This segment consists largely of the discontinued LDC business, real estate operations, corporate treasury (which manages the bank's market risk position) and the systems and operations groups. The segment accounted for 5% of total earnings, reflecting largely the returns of the LDC portfolio and the corporate treasury group.

RESULTS BY BUSINESS SEGMENT

FOR THE YEAR ENDED OCTOBER 31, 1997 ($ MILLIONS, TAXABLE EQUIVALENT BASIS)	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER (1)	TOTAL
Net interest income	$3,972	$ 336	$ 721	$ 3	$5,032
Other income	1,359	1,708	1,097	115	4,279
Gross revenues	5,331	2,044	1,818	118	9,311
Provision for credit losses	226	6	142	6	380
Non-interest expenses	3,390	1,592	1,040	31	6,053
Net income before income taxes	1,715	446	636	81	2,878
Income taxes	677	185	235	(7)	1,090
Non-controlling interest and taxable equivalent adjustment	19	20	59	11	109
Net income	$1,019	$ 241	$ 342	$ 77	$1,679
Net income as a % of total net income	61%	14%	20%	5%	100%
Return on equity	27.9%	49.7%	18.7%	2.5%	19.3%
Efficiency ratio	63.6%	77.9%	57.2%	–	65.0%
Average assets	$100,000	$12,300	$109,900	$17,300	$239,500
Average loans and acceptances	95,600	6,400	52,400	–	154,400
Average deposits	87,300	17,000	61,900	–	166,200

(1) The Other segment is comprised mainly of LDC assets, real estate operations, corporate treasury, systems & technology and operations & service delivery.

personal & commercial banking

personal financial services

residential mortgages

personal loans

deposits

investments

telephone banking

pc & internet banking

money orders & drafts

safe deposit boxes

foreign exchange

card services

VISA classic II

VISA classic

VISA classic low rate option

VISA gold

u.s. dollar *VISA* gold

canadian plus *VISA*

Royal Bank creditline for small business VISA

VISA purchasing card

VISA corporate card

FirstView software

client card with *Interac* debit

Mondex electronic cash card

merchant *Interac* and credit card acceptance services

business banking

business deposits & investments

financing

leasing

cash management

electronic commerce

business card and merchant pos

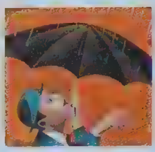
payroll

trade & foreign exchange

telephone banking

pc and internet services

financial advisory services



insurance

RBC Underwriting Management Services Inc.
- creditor life, disability and job loss insurance through *Royal Bank* and *Royal Trust* distribution networks and *Visa* cards
- *Travel HealthProtector*, personal accident insurance and *Royal RecoverAssist*

Westbury Life
- life & health insurance and annuity products through a network of 5,000 independent brokers

RBC Life
- life and health insurance and annuity products

RBC General Insurance
- personal lines home and auto insurance

Voyageur Insurance Company
- travel insurance via 3,400 travel agents

Assured Assistance Inc.
- emergency medical assistance to Voyageur Insurance Company and its clients

Royal Bank of Canada Insurance Company Ltd. (Barbados)
- international reinsurance

PERSONAL & COMMERCIAL BANKING

($ millions, taxable equivalent basis)	% change	1997	1996
Net interest income	4%	$ 3,972	$ 3,822
Other income	14	1,359	1,189
Gross revenues	6	5,331	5,011
Provision for credit losses	(28)	226	314
Non-interest expenses	4	3,390	3,245
Net income before income taxes	18	1,715	1,452
Income taxes	16	677	585
Non-controlling interest and taxable equivalent adjustment	46	19	13
Net income	19%	$ 1,019	$ 854
Net income as a % of total net income	100 b.p.	61%	60%
Return on equity	340 b.p.	27.9%	24.5%
Efficiency ratio	(120) b.p.	63.6%	64.8%
Average assets	12%	$100,000	$89,600
Average loans and acceptances	11	95,600	86,100
Average deposits	–	87,300	87,300

1997 Performance

Personal and commercial banking's net income was up 19% from last year and accounted for 61% of the bank's total net income. Earnings reflected a $70 million (pre-tax) gain from the sale of the payroll business and a $50 million addition to the general provision, compared to a $100 million addition to the general provision in 1996. The segment's ROE was up 340 basis points from 1996 to 27.9%.

Revenues were up 5% excluding the payroll gain, reflecting increases in all the businesses, with particularly good growth in insurance and card revenues.

Specific provisions for credit losses were $176 million, down 18% from last year. The general provision for credit losses, as mentioned, was $50 million versus $100 million in 1996.

As expected, the efficiency ratio improved – by 120 basis points in total, and 40 basis points excluding the payroll gain.

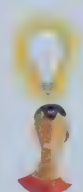
Objectives The segment's objective is to strengthen Royal Bank's leadership position in the Canadian personal and business market, while selectively pursuing niche global opportunities. We aim to do so by focusing on customer satisfaction, employee satisfaction, business performance (revenue growth, efficiency enhancement and portfolio quality) and corporate reputation and image, utilizing a balanced scorecard approach.

The segment intends to maximize synergies between the businesses to strengthen brand positioning, revenue growth and cost management.

Strategies To significantly increase revenues and market share position in the Canadian market, the segment will focus on sales effectiveness, by leveraging strengthened client segmentation and information management and by capitalizing on relationship marketing capabilities. It intends to align channels, products, services, and the sales force to differentiated customer segment needs. The segment also plans to enhance risk management processes through technology.

The strategy is to selectively pursue global market opportunities, implementing a targeted niche segment strategy, with priority on the U.S.A. and Caribbean markets. The segment expects to expand and diversify the distribution of insurance products through acquisitions, strategic alliances, and third-party products to develop new revenue streams.

Innovation means presenting future ideas now. This year we introduced North America's first, and Canada's only, Interactive Voice Response Loan System, allowing more than 34,500 client and non-client applicants across the country to apply for credit by phone, all in the time it might take to order pizza. Raising sights almost always means raising standards.



personal & commercial banking

businesses | where we stand | operational review

personal financial services

Where we stand

- The largest provider of residential mortgages, personal loans and deposits to 9 million Canadians.
- Financial services provider in the Caribbean with over 60 units.

Operational review

- Improved customer and employee satisfaction levels by 2% and 10% respectively, partially through introduction of problem resolution program.
- Introduced advanced segmentation and predictive modelling techniques to gain additional insight into customer needs.
- Enhanced position in the residential mortgage business by introducing financial advice to segments such as first-time home buyers, renovators and home sellers.
- Offered seven new, targeted GICs and reduced investment processing time by 60%.
- Launched innovative programs for students, recognizing the lifetime potential of this market.
- Launched third-party alliance products, reverse mortgages and life annuities, providing choice to clients and incremental revenue streams to the bank.
- Freed-up staff time to provide financial advice and solutions.
- Upgraded financial planning accreditations to one-third of staff, while *Royal Learning Network* courses provided more cost-efficient training to employees at 500+ branches via multi-media hardware and software.
- Introduced *Royal Direct PC* and Internet banking featuring award-winning *Managing Your Money* software. *Royal Direct* PC, Internet and telephone banking is the world's largest alternative delivery channel provider.
- Grew the mobile sales force, which serves clients when and where they choose, to over 500.
- Provided market-first enhancements to selected banking machines such as cash-back deposits for lower service fees, U.S.$ travellers cheques, statement updates and audio banking for clients with disabilities.
- Provided clients in 44 shared location branches with integrated access to Royal Bank, Royal Trust and RBC Dominion Securities.
- Professionals' Program in the Bahamas continued to increase market-dominant position with professional and student sectors.
- Was the only international bank remaining to serve residents of volcano-devastated Montserrat.

card services

Where we stand

- Canada's largest provider of *VISA* and debit cards (by number of cards), processing services, and merchant terminals deployed.
- Serves 5.6 million credit card and 6 million debit card customers.
- Provides merchants with electronic processing of credit and debit transactions.
- Founding member of Mondex international and worldwide leader in smart payment cards.

Operational review

- *VISA* Classic II, one of Canada's fastest growing new cards, continued to expand with over 7,000 retail locations providing cardholder discounts, and with cardholder satisfaction rating of 97%.
- *Royal Bank CreditLine for small business™ VISA*, an industry first in providing a "hassle-free" scorecard-driven application process, met with exceptional market acceptance.
- Debit cards led the market in Interac volume and active cardholders; and recent market-leading enhancements of purchase security and extended warranty further strengthens our position.
- Proprietary Windows-based expense management software, FirstView, continued to lead in the North American market, which is reflected in strong market share gains in corporate (travel & entertainment) and purchasing cards.
- Syndicated Angus Reid industry research indicated market leadership in the cross-selling of the card base.
- Leveraged expanded database capabilities via direct marketing and alternative delivery channels/segments to aggressively capture new business.
- The adoption of *Mondex* by the 10 largest deposit taking institutions in Canada reaffirmed Royal Bank's 1995 decision to bring this technology to Canada.
- Successfully launched *Mondex* in Guelph, Ontario, with the support of consumers and 90% of the target merchant community. Plans are in place to introduce *Mondex* to two additional Canadian communities in 1998.
- Continued the leadership role in smartcard development by working with national and international firms to develop smartcard products for use worldwide.
- Continued advances in e-commerce with interactive Internet web sites, on-line applications, and Canada's first Secure Electronic Transaction (SET).
- Received "Best New Solutions Award" at the Retail Strategies and Solutions Conference recognizing the "Debit at the pump" solution with Chevron Canada.
- A "First to Market" POS terminal was developed and launched for the Ontario Medical Association (OMA), combining debit and credit payments along with Health Card validation.

financial performance

PERSONAL FINANCIAL SERVICES			
($ millions)	% change	1997	1996
Gross revenues	4%	$ 2,888	$ 2,781
Average residential mortgages	15	$44,900	$38,900
Average personal loans	6	17,000	16,100
Average personal deposits	(7)	65,100	70,200
Market share (1)(2)			
Residential mortgages	90 b.p.	12.7%	11.8%
Personal loans	130 b.p.	15.6	14.3
Personal deposits	(40) b.p.	13.9	14.3

(1) As a % of all financial institutions in Canada at August 31. Market shares exclude Royal Trust, Action Direct and RBC Dominion Securities – Private Client Division for personal deposits and exclude Royal Trust for residential mortgages. Market shares for the entire group at August 31, 1997 and August 31, 1996 were 16.4% and 15.1% respectively for personal loans, 16.6% and 17.1% respectively for personal deposits and 14.4% and 13.9% respectively for residential mortgages.
(2) Excludes Caribbean.

- Revenues were up 4%, with good growth in both net interest income and other income.
- Residential mortgage and personal loan volumes increased by 15% and 6% respectively.
- Market shares for residential mortgages and personal loans were up 90 basis points and 130 basis points, respectively, while portfolio quality remained sound.
- Lower personal deposit volumes and market share reflected a shift to investment products in the low interest rate environment.
- New personal loan pricing strategy resulted in incremental net interest income of $16 million.
- More than 77,000 clients were referred among the companies of Royal Bank, resulting in $5.6 billion of business, including $2.3 billion from outside the bank and $2.7 billion in retained business.
- New sales processes and employee training at 250 priority market locations contributed to 15% revenue growth in these locations.
- Caribbean revenues increased 16%.

objectives and strategies

Objectives
1. Grow revenues by 5% annually.
2. Grow earnings by 10% annually.
3. Improve efficiency.
4. Maintain leading market shares.

Strategies
- Focus on proactively providing customer solutions one customer at a time. Build one-on-one relationships with our customers, leveraging the information our customers have entrusted us with.
- Customize information, products and services to meet individual client needs with consistent treatment at all points of contact.
- Reduce administration duties in branches by centralizing functions to enable staff to provide clients with more financial advice.
- Enhance sales automation in all branches by 1999 to streamline processes and enable financial advice/solutions-based conversations with our clients.
- Leverage the distribution network to deliver third-party products for new revenue streams.
- Increase shared locations in Canada to 78 in 1998, and continue to expand this integrated concept in the Caribbean.
- Selectively capitalize on global opportunities.
- Broaden and deepen leadership talent base, reflecting the diversity of our employee population and our communities.

CARD SERVICES			
($ millions)	% change	1997	1996
Delinquency ratio (1)	(27) b.p.	0.80%	1.07%
VISA card spending volumes	12	$18,055	$16,105
VISA merchant spending volumes	9	16,294	14,900

(1) 90 day+ delinquencies as a % of outstandings.

- New accounts increased 30%, indicating future growth in spending and outstanding balances.
- *VISA* cardholder spending volumes increased 12% and *VISA* merchant spending volumes went up 9%.
- Debit cardholder volumes grew 51% and debit merchant volumes grew 64%.
- Delinquency ratio declined by 27 basis points.

Objectives
1. Grow revenues by 10% annually.
2. Increase market share in credit cards by 1% annually to the year 2000.

Strategies
- Leverage database and direct marketing capabilities to aggressively capture new segments.
- Explore synergies with merchant and alliance partners to provide cost efficiencies and value-added information-based products, potentially combining card functions of debit, e-cash and credit on a relationship card platform.
- Invest in technology to meet customers' evolving needs for customization, information, and the convenience of alternate delivery channels.

personal & commercial banking

businesses | where we stand | operational review

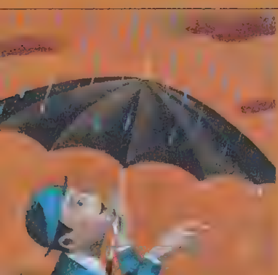
business banking

Where we stand

- Canada's largest provider of financial and electronic business banking services to small and medium enterprises and commercial accounts, serving approximately 380,000 customers.
- Specialized teams of market experts focused on targeted growth segments, which include:
  - knowledge-based industries
  - agriculture & agri-business
  - public sector
  - franchising
  - professionals
  - women entrepreneurs
  - aboriginals
  - youth markets.

Operational review

- Established Royal Bank Canada Growth Co. to help fill the 'commercialization/company creation gap' in knowledge-based industries and growth sectors.
- Launched new client-friendly equipment leases for small business, offering leases up to $50,000 or *Royal Business LeaseLine* leasing services by phone, fax, mail or in-branch. This complemented the card-based *Royal Bank CreditLine for small business*™ launched in 1996.
- Introduced Royal Brick & Mortar loans to offer commercial mortgages at levels suitable for small business, with title insurance, prepayment, and 60-day rate commitment options.
- Launched business banking client (debit) card, which gives small businesses access to business deposits, payments, transfers and cash at any of Royal Bank's automated banking machines, and is linked to Interac direct payment system.
- Created National Councils with small business, women and other entrepreneurs complementing advisory councils on ag-biotech and agri-business.
- Published the first annual guides to "Exporting for Small Business in Canada" and "Guide to Small Business Financing in Canada".
- Introduced Internet electronic banking services, including access to account balances, transaction history and transfer of funds between accounts.
- New financial EDI payments enabled business customers to move information and payments electronically, with automatic updating of accounts payable and receivable capabilities.
- The sale of the Payroll and Human Resource Information Business to Automatic Data Processing Inc. (ADP), combined with a simultaneous strategic alliance with ADP, resulted in a wider array of payroll and human resource products and services to business customers.
- Extended ViaTech to 14 sites across Canada. ViaTech is a national network of Royal Bank and external professionals in finance, taxation, accounting, legal, management, marketing and technical matters focused on the needs of knowledge-based industries. A similar national network, ViaSource, is being created to focus on small business.



insurance

Where we stand

- Canada's largest distributor of creditor insurance products by premiums. Serves approximately 1.8 million customers and generates $232 million of life and disability insurance premiums.
- Voyageur Insurance Company is Canada's largest provider of travel insurance products in Canada, with $116 million in premiums, distributed through a network of 3,400 travel agents.
- Westbury Life ranks 7th in Canada in terms of number of new individual life insurance policies issued.

Operational review

- Incorporated RBC Life to focus on direct sales of life annuities, term insurance and other niche products.
- Implemented a direct marketing program for life annuities for group customers.
- Incorporated RBC General Insurance to distribute personal lines home and auto insurance.
- Reached an agreement with HB Group Insurance Management Ltd., a subsidiary of The Co-operators Group, to purchase the technology, systems and expertise necessary to develop a direct response property and casualty insurance operation, commencing in 1998.
- Successfully launched Hospital Cash insurance product across the country.
- Broadened travel insurance operations by entering the convention and third party group administration markets.
- Expanded the operations of the Insurance Service Centre to include central review of branch creditor insurance applications.
- Developed a strategy for expansion of international reinsurance operations with particular emphasis on the retrocession market.
- Consistent with strategy to expand existing insurance operations, led a bid to acquire London Insurance Group. Since London Insurance Group was ultimately acquired by another insurer, a $70 million breakup fee was paid to the bank and, net of expenses, $65 million was included in the revenues of the Other segment.

financial performance

BUSINESS BANKING

($ millions)	% change	1997	1996
Gross revenues	8%	$ 1,714	$ 1,585
Average assets	8	$31,100	$28,800
Average loans and acceptances	8	30,000	27,900
Average deposits	6	18,200	17,100
Market Share			
Total business financing (1)	80 b.p.	14.2%	13.4%
Total bank business financing (2)	60 b.p.	20.4	19.8
Total business deposits (1)	380 b.p.	21.8	18.0
Primary relationship (3)	300 b.p.	22.0	19.0

(1) Of total financial institutions as at August 31, 1997.
(2) Of total banks as at August 31, 1997.
(3) As at April/May 1997.

- Revenues grew by 8%.
- Loans to SMEs (small and medium enterprises), including agriculture accounts, increased by 9% to $13.2 billion
- Efficiency ratio (excluding gain from sale of payroll business) was 48.0%, down 210 basis points from 1996.
- Market share in business financing increased 80 basis points to 14.2%, and 60 basis points in bank business financing to 20.4%.
- Market share of business deposits increased by 380 basis points to 21.8%.

objectives and strategies

Objectives

1. Accelerate revenue growth.
2. Increase volumes faster than market.
3. Further improve efficiency through aggressive use of technology.
4. Maintain portfolio quality.
5. Differentiate the business from other financial institutions in customer satisfaction.
6. Broaden and deepen leadership base.

Strategies

- Make significant gains in sales effectiveness and management of customer information.
- Continue strengthening risk management processes, leveraging technology to strategically manage portfolio and capital.
- Strengthen alignment of business bankers, key functional support, and human resource practices to strategic objectives.
- Dominate the SME market, lead in targeted growth segments, explore global niche opportunities and expand 'share of wallet' position.
- Profitably align channels, products, services, and sales force to customer segment needs.

INSURANCE

($ millions)	% change	1997	1996
Premiums written			
Creditor life and disability	13%	$232	$205
Life insurance	5	100	95
Travel related	5	116	110
Property and casualty	–	15	15
International reinsurance	550	13	2
	11%	$476	$427
Market share of premiums			
Creditor life and disability (1)	(200)b.p.	26%	28%
New life insurance (2)	–	2.0	2.0

(1) As a % of eight largest banks in Canada as at January 31, 1997.
(2) As a % of new life insurance premiums in Canada as at June 30, 1997.

- Although creditor life and disability premiums increased by 13%, market share declined. This resulted from competitors becoming more active in this market in which the group already has a high customer penetration rate.
- Total premiums rose by 11%.
- New life insurance premium market share remained steady at 2%.

Objectives

1. Fulfill customers' personal insurance requirements using different convenient distribution channels.
2. Achieve strong revenue growth in domestic operations.
3. Expand in key select international markets.
4. Achieve annual gross premiums of $1 billion by the year 2000.

Strategies

- Expand existing insurance operations through a combination of startup initiatives, joint ventures and acquisitions.
- Focus on technology and matching appropriate products to delivery channels to achieve a low-cost manufacturing and distribution environment.
- Further expand the Insurance Service Centre to provide exceptional customer service to creditor insurance clients and the branch network.
- Pursue new sources of international reinsurance business with a particular focus on the life retrocession, property and casualty and financial reinsurance markets.
- Develop the Global Private Insurance initiative to sell insurance through the bank's Global Private Banking units worldwide.

wealth management

royal trust

provides:

- personal wealth management services
- investment management
- global private banking
- global securities services

through a network of 152 offices across Canada and in 21 other countries around the world.

royal mutual funds

offers 27 mutual funds to Canadians and provides sales and client service through the group's branch network in Canada and by telephone through the *Invest by phone*™ service of *Royal Direct*.

rbc dominion securities – private client division

offers full-service securities brokerage, investment advisory and other investment services through a network of over 1,600 investment advisors in 275 branches in Canada and 6 offices around the world.

royal bank action direct

is an investment dealer for discount brokerage services to Canadian clients who do their own research, make their own decisions and enjoy the convenience of investing by speaking with an investment representative or by using automated telephone or electronic channels such as personal computers.

WEALTH MANAGEMENT

($ millions, taxable equivalent basis)	% change	1997	1996
Net interest income	(17)%	$ 336	$ 405
Other income	61	1,708	1,058
Gross revenues	40	2,044	1,463
Provision for credit losses	(45)	6	11
Non-interest expenses	46	1,592	1,088
Net income before income taxes	23	446	364
Income taxes	28	185	144
Non-controlling interest	–	20	20
Net income	20%	$ 241	$ 200
Net income as a % of total net income	–	14%	14%
Return on equity	(70) b.p.	49.7%	50.4%
Efficiency ratio	360 b.p.	77.9%	74.3%
Assets under administration			
Institutional	49%	$634,400	$425,500
Personal	58	123,400	78,300
Mutual fund	45	24,500	16,900
	50%	$782,300	$520,700
Assets under management			
Institutional	36%	$ 27,800	$ 20,500
Personal	–	13,800	13,800
Mutual fund	45	24,500	16,900
	29%	$ 66,100	$ 51,200
Average assets	6%	$ 12,300	$ 11,600
Average personal loans	(10)	6,400	7,100
Average personal deposits	(17)	17,000	20,600

1997 Performance

In 1997, the wealth management segment of the group enhanced its reputation as a leading provider of wealth management services through acquisitions and market share growth.

Net income increased by 20% from 1996 and reflected strong growth in the earnings of Royal Trust and Royal Mutual Funds. The segment accounted for 16% of Royal Bank's total net income (excluding the impact of a $26 million after-tax restructuring charge for the acquisition of Richardson Greenshields), up from 14% last year. Wealth management's return on equity was 49.7% (55.2% excluding the restructuring charge), compared to 50.4% last year. Revenues were up 40% with fee income 61% higher.

Assets under management were up 29%, with more than half of the increase resulting from new business. Assets under administration increased by 50% due in part to RBC Dominion Securities' acquisition of Richardson Greenshields and Royal Trust's acquisition of Montreal Trust's and Scotiabank's institutional custody business.

Excluding restructuring costs of $51 million from these acquisitions, expenses increased 42% and the efficiency ratio was 75.4%. These reflected strong revenues and, correspondingly, higher expenses at RBC Dominion Securities.

With the integration of Richardson Greenshields, RBC Dominion Securities established itself as the largest Canadian dealer in terms of the number of investment advisors, total client assets, gross revenue, market share and investment research.

Royal Mutual Funds had net sales of $5.5 billion and the highest sales of any fund company during the 1996-1997 RRSP season. Two new funds - *Royal Monthly Income Fund* and *Royal Premium Money Market Fund* – contributed to the overall growth.

Royal Trust's fee income grew 30%, due to strong growth in investment management, *Global Securities Services* and global private banking. Royal Trust increased its emphasis on financial counselling and now has over 150 accredited financial planners.

Royal Bank Action Direct, the group's discount brokerage arm, experienced record growth in 1997 with assets under administration up 50% to $5.4 billion and client accounts up 42% to 231,000.

Objectives The segment's goal is to further establish its position as Canada's leading provider of wealth management services in Canada and internationally, to increase fee revenue by at least 10% per year and to grow earnings.

Strategies The primary focus is to leverage the capabilities of the various Wealth Management business units to improve the quality of service offered to individual clients. The group's referral program has already generated substantial referrals among group companies. The segment plans to extend full financial service offices to other locations within the network, as these have proven to be an extremely effective means of meeting clients' broad financial service needs. The segment aims to continue to develop its ability to provide financial advice. A significant number of employees are expected to achieve personal financial planning designations in 1998. Bundled service offerings are being developed to provide clients with a range of choices to support this financial advice.

Internationally, the segment plans to continue to expand by developing alliances in under-represented markets. International investment capability will also be expanded in selected markets.

Without the team, there is no ascent. Last year, Royal Bank member companies referred more than 77,000 clients to each other and generated $5.6 billion in business. Nearly half of this was from the competition and we are raising our sights to attract more new business.

wealth management

businesses | **where we stand** | **operational review**

royal trust

Where we stand

- Canada's largest investment manager by assets under management and largest custodian by assets under administration.
- Largest global private banking network of any Canadian financial institution by number of branches.

Operational review

- Over 150 employees earned personal financial planning accreditation.
- Formed distribution alliances for global private banking services with two leading American banks, Norwest and NationsBank.
- Acquired Montreal Trust's and Scotiabank's institutional and pension custody business.
- Top ranked provider of Canadian custody (Global Custodian, Fall 1997) and 2nd in the world for global custody (Global Investor, May 1997).
- Personal Trust assets exceeded $20 billion for the first time.
- Transition of TD Bank's pension and institutional clients to Royal Trust was completed ahead of schedule.
- Increased institutional investment management assets by 36%.

royal mutual funds

Where we stand

- Canada's third largest mutual fund company as measured by assets under management.
- Largest among no-load mutual fund providers.

Operational review

- Balances exceeded $20 billion for the first time.
- New *Royal Monthly Income Fund* offered investors steady monthly pay-outs which can be a combination of interest, dividends and capital gains. Now exceeds $250 million.
- Launched *Royal Premium Money Market Fund* as a liquid, flexible, convenient choice for large short-term investments which now has over $800 million in assets.
- Completed merger of similar Royal Trust Mutual Funds and Royal Bank Royfunds.
- Introduced *Personal Investment Planner,* a tool which provides a framework for offering client-driven financial advice and investment recommendations.
- Received top ranking for telephone client service in the independent L. S. Dalbar industry survey.

rbc dominion securities – private client division

Where we stand

- Canada's largest investment advisor in RSP/RIFs, non-registered investment assets, mutual funds, equities and wealth management.

Operational review

- Over $78 billion of investment assets.
- Assets in the *Sovereign Investment Program* increased to $1.7 billion, up 148% from last year.
- New fee-based, non-discretionary *Advisor Account* exceeded $1 billion in assets.
- Introduced *Compass Financial Plan* to help clients develop a comprehensive financial plan.
- Introduced *WealthBuilder RSP, Family ESP,* and *Royal Choices Group RSP.*
- Completed the integration of Richardson Greenshields.

royal bank action direct

Where we stand

- Canada's second largest discount broker.
- Among the top 10 discount brokerage firms in North America in terms of number of accounts.

Operational review

- Welcomed over 75,000 new client accounts.
- Introduced *Value RSP* to appeal to mutual fund investors and a premium package, *Select Service.*
- Completed national roll-out of PC*Action,* PC-based investment system.
- Made touchtone telephone trading and quote system, *TelAction,* available 24 hours a day, 7 days a week.
- Opened second Investor Centre in Toronto.
- Expanded investment information available for clients through *Research Source,* the *Action Direct Investor* newsletter and the web site.
- *Mutual Fund Marketplace* now exceeds 700 funds from over 50 fund families.
- At year end, 22% of all transactions were completed electronically.

financial performance

ROYAL TRUST

($ millions)	% change	1997	1996
Gross revenues	15%	$ 880	$ 764
Fee revenues	30	$ 617	$ 475
Assets under administration			
Institutional	49	$635,300	$425,500
Personal	27	41,500	32,700
Mutual fund	45	24,500	16,900
	48	$701,300	$475,100
Assets under management			
Institutional	36	$ 27,800	$ 20,500
Personal	–	13,800	13,800
Mutual fund	45	24,500	16,900
	29	$ 66,100	$ 51,200
Average personal loans	4	$ 1,450	$ 1,400
Average personal deposits	(10)	13,300	14,800
Average residential mortgages	(14)	4,750	5,550

- Fee revenues increased 30%.
- 29% of gross revenues were generated outside Canada.
- Net income was up 20%.
- Assets under management grew 29%.
- Assets under administration grew 48%.

MUTUAL FUNDS

($ millions)	% change	1997	1996
Gross revenues (1)	50%	$ 227	$ 151
Mutual fund balances			
Equity	58	$ 7,900	$ 5,000
Money market	27	6,100	4,800
Fixed income	11	4,200	3,800
Balanced	91	6,300	3,300
	45	$24,500	$16,900
Market share (2)			
Assets	10 b.p.	8.8%	8.7%
Number of fund accounts	47	3,124,000	2,122,000

(1) These amounts are after deducting fees paid to the investment manager, and to the brokers and Royal Trust branches for distributing the funds.
(2) As a % of total mutual fund assets in Canada.

- Revenues were up 50%.
- Market share increased to 8.8%.
- Mutual fund assets increased 45% to $24.5 billion.

RBC DOMINION SECURITIES – PRIVATE CLIENT DIVISION

($ millions)	% change	1997	1996
Gross revenues	74%	$ 877	$ 503
Assets under administration (1)	86	$78,000	$ 42,000

(1) Include Royal Mutual Funds.

- Revenues increased 74%.
- Assets under administration were up 86%.

ROYAL BANK ACTION DIRECT

($ millions)	% change	1997	1996
Assets under administration (1)	50%	$ 5,400	$ 3,600
Number of accounts	42	231,000	163,000

(1) Include Royal Mutual Funds.

- Assets under administration were up 50%.
- Number of accounts increased 42%.
- Revenues were up 31%, despite price pressures.
- Market share of accounts increased to 17% from 16%.
- Transaction volume was up 50%.
- Handled over 7 million incoming calls.
- Provided approximately 2 million quotes per month on PC*Action*.

objectives and strategies

Royal Trust

Objectives

1. Grow fee revenues by at least 10% annually.
2. Get top ratings for client service.

Strategies

- Continue to build the financial advisory competency of our employees.
- Continue to expand investment management capabilities in Canada and globally.
- Extend the group's shared office concept to provide better overall financial advice and services.
- Expand Global Private Banking distribution in new markets through alliances with local providers.
- Build *Global Securities Services* sales outside Canada.

Mutual Funds

Objective

1. Increase mutual fund revenues b[illegible] 15% annually.

Strategies

- Launch innovative new products including 3 new *Strategic Index Funds* that offer a disciplined application of a defined investment strategy.
- Continue to explore and deliver products through alternative channels.
- Enhance advisory capabilities within network.

RBC Dominion Securities – Private Client Division

Objectives

1. Grow revenues by 15% annually.
2. Attain $90 billion in assets under administration in 1998.

Strategies

- Re-inforce core positioning of investment advice and service.
- Expand distribution aggressively.
- Provide comprehensive tools to ensure a customized client approach.
- Focus on asset gathering and fee-based services.
- Train investment advisors to become the best in North America.

Royal Bank Action Direct

Objectives

1. Grow revenues by 20% annually.
2. Market share of 25% of accounts by year 2000.

Strategies

- Substantially increase brand equity and market awareness by establishing Investor Centres and increasing merchandising.
- Invest in technology enhancements to give clients convenient, 24 hour, multi-channel access and links to the group.
- Introduce Internet trading system, NetAction in 1998.

corporate & investment banking

corporate banking

a complete range of credit and operating services delivered through an international network of relationship managers

- loan trading
- loan syndications
- project and structured finance
- tax structured finance
- asset securitization
- global cash management

managing risk through:

- advanced portfolio management
- sophisticated credit mitigation techniques

financial institutions & trade

correspondent banking services provided to 3,500 of the world's largest financial institutions:

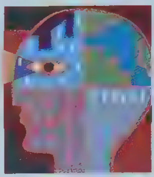
- credit services
- deposit services
- collection services
- clearing services
- payment services

non-bank financial institution services provided to insurance companies, finance companies, and investment dealers around the world:

- credit products
- operating products
- treasury products

global trade & commodity finance services:

- letters of credit
- guarantees
- receivables financing



rbc dominion securities – institutional division

rbc ds global markets:

- foreign exchange including currency risk management 24 hours a day, through an extensive global sales and trading network
- fixed income and capital market services including: origination and distribution of new products, secondary market sales and trading of government, provincial, municipal, and corporate debt instruments, interest rate derivatives, swaps, risk management
- money markets: overnight funding, commercial paper, all major currency funding, Canadian dollar securities funding

investment banking:

- advisory services for mergers, acquisitions, divestitures and reorganizations
- equity & debt underwriting
- advisory services for new issues, mergers, acquisitions

equity trading & sales services to institutional investors:

- comprehensive Canadian research products
- trading & sale of listed equities and equity-related products
- distribution of new issues
- North American and international structured product solutions

CORPORATE & INVESTMENT BANKING

($ millions, taxable equivalent basis)	% change	1997	1996
Net interest income	18%	$ 721	$ 609
Other income	23	1,097	891
Gross revenues	21	1,818	1,500
Provision for credit losses	(67)	142	424
Non-interest expenses	27	1,040	822
Net income before income taxes	150	636	254
Income taxes	312	235	57
Non-controlling interest and taxable equivalent adjustment	26	59	47
Net income	128%	$ 342	$ 150
Net income as a % of total net income	1,000 b.p.	20%	10%
Return on equity	1,060 b.p.	18.7%	8.1%
Efficiency ratio	240 b.p.	57.2%	54.8%
Average assets	29%	$109,900	$85,400
Average loans and acceptances	38	52,400	37,900
Average deposits	50	61,900	41,400

1997 Performance

Corporate and investment banking accounted for 20% of the bank's net income in 1997 compared to 10% in 1996 when a $300 million addition to the general provision reduced earnings. Return on equity improved to 18.7%.

Revenues increased by 21%, with net interest income up 18% and other income 23% higher due largely to improved performance at RBC Dominion Securities' (RBC DS) institutional division.

Non-interest expenses were similarly higher due to greater variable compensation costs at RBC DS.

Specific provisions for credit losses were $142 million versus $124 million last year, as recoveries were lower in 1997.

The efficiency ratio deteriorated to 57.2%, reflecting the greater contribution of RBC DS, which has a much higher efficiency ratio than the other businesses in this segment due to its variable incentive compensation.

Objectives The major objective of this segment is to become more responsive in providing integrated corporate and investment banking solutions to meet the financing and balance sheet needs of our corporate and government clients. In addition, the segment continues to broaden the range of products available to our customers in the United States including leveraged lending, securitization, trade and receivables financing, equity derivatives and other similar initiatives.

Strategies To achieve our objectives, we plan to meld the three businesses serving corporate and government customers more closely, and provide seamless delivery of a full range of corporate and investment banking products and services in Canada, and more selectively in other markets. To improve profitability, the segment plans to focus on individual account profitability and on demarketing accounts with unacceptable returns. Increased liquidity of the loan portfolio will be achieved through securitization, loan trading and other means.

Look up! The outstanding success of our Loan Syndication and Project Finance strategies in Latin America have quickly made us the 7th largest co-arranger in the world. It's the kind of entry that some can only dream about. We call it a good start and plan on even better results.

corporate & investment banking

businesses | where we stand | operational review

corporate banking

Where we stand

- Serves more than 1,000 corporate and institutional clients in Canada, the USA, Europe, Latin America and Asia.
- Delivers all the capabilities of the group to clients around the world.
- Leads in market position and importance domestically according to independent benchmarking.

Operational review

- Enhanced global syndications capability through units in Toronto, New York, London and Singapore.
- Established a loan trading unit in New York.
- Formed a global project & structured finance group.
- Expanded in tax-structured financing.
- Accelerated North American securitization activity.
- Launched a leveraged lending unit in the U.S.A.
- Followed a portfolio management approach, using credit derivatives and other such tools to manage risk.
- Continued focus on relationship management with professional staff supported by sophisticated information and delivery systems.
- Expanded and refined focus on selected industries including forest products, mining and metals, media/telecommunications, public sector, specialized manufacturing (including automotive and aircraft financing) and energy.
- Ranked among top 10 banks in the world in the energy sector by the UK-based publication, *Petroleum Economist*.

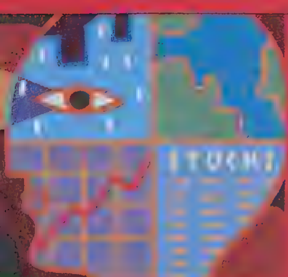
financial institutions & trade

Where we stand

- Exclusive agent for just under 50% of the world's largest banks in settling their Canadian dollar interbank payments.
- Leading bank to Canadian insurance industry.
- Maintains trade lines in over 130 countries.

Operational review

- Launched *Tradeview*, a new suite of electronic products giving electronic banking access to Canadian importers and exporters.
- Provided Internet access to correspondent banking clients seeking account balances and transactions.
- Invested in Northstar Trade Finance Inc., a company which provides medium-term loans to support Canadian exporters.
- Opened offices in Los Angeles, Houston and Boston through RBC Trade Finance (USA) Inc.



rbc dominion securities – institutional division

Where we stand

- Leading provider of comprehensive capital market products, debt and equity underwritings for Canadian corporations, innovative financing instruments, income trusts, real estate finance, corporate brokerage, advice on mergers, acquisitions and divestitures.
- Top-ranked dealer in research, sales and trading of Canadian equities.
- Canada's largest commercial paper agent and provider of securities and securities financing.
- Canada's most profitable foreign exchange bank.
- Active market maker in US$-based currency, pairs, EMS crosses, and currencies of Asia, Eastern Europe, and Latin America.

Operational review

- Lead-managed 73 debt and equity financings, and co-managed a further 147 transactions, to raise an aggregate $35.7 billion for clients, a result which surpasses all other Canadian competitors.
- Led the structuring and distribution of 16 royalty and income trusts for an aggregate value of $3.5 billion.
- Advised on 9 of the top 15 M&A transactions in Canada in 1997.
- Advised Loram Corporation in an assessment of private sale and public market alternatives for its three main businesses, resulting in Loram realizing proceeds in excess of $2 billion.
- Played a key role in developing the Canadian high-yield debt market, lead managing three transactions for proceeds of $560 million.
- Merged fixed income, money market and foreign exchange operations, including their derivatives, of Royal Bank, RBC DS, and Richardson Greenshields to form Global Markets trading group.
- Increased volumes of domestic securities lent and/or financed by 25%.
- Significantly expanded the research team to provide broader and more specialized coverage of Canadian industry.
- Expanded global mining research, sales and trading specialists and increased investment in South African securities dealers, SMK Securities (PTY) Limited, to 25%.
- Introduced Index Linked Structured Notes and GICs.
- Developed equity monetization products for corporate and high net worth clients.
- Expanded equity derivatives business in Europe.

financial performance

CORPORATE BANKING

($ millions)	% change	1997	1996
Gross revenues	(2)%	$ 417	$ 426
Average assets	23	$25,000	$20,300
Average loans and acceptances	21	$23,100	$19,100

- Despite an increase in loans and acceptances, revenues declined slightly due to narrower spreads, particularly outside Canada.
- Efficiency ratio rose slightly and is now competitively positioned in the mid-40s.
- Specific provisions for credit losses declined this year.

objectives and strategies

Objectives

1. Achieve top quartile risk-adjusted returns.

Strategies

- Maintain position as a low-cost producer.
- Ensure a sound and diversified portfolio.
- Focus on financial partnerships with core clients.
- Expand internationally by providing solutions to clients in selected industries.
- Enhance fee-based businesses such as securitization, syndication and secondary loan funding.

FINANCIAL INSTITUTIONS & TRADE

($ millions)	% change	1997	1996
Gross revenues	19%	$ 369	$ 309
Average assets	56	$10,300	$6,600
Average letters of credit	33	$11,800	$8,900
Total payment volumes (thousands)	15	3,700	3,230
Payment errors (per 10,000 payments)	(21)	1.9	2.4

- Revenues increased 19%.
- Average assets were 56% higher with the increase well dispersed geographically and largely in short-term credits to banks and corporations.
- Average letters of credit balances were up 33%.

Objectives

1. Grow revenues by at least 10% annually.
2. Become a top 20 global trade bank by the year 2001.

Strategies

- Use technology to develop new products and delivery channels, and to reduce costs.
- Grow and internationally diversify revenues from products provided to insurance companies.

RBC DOMINION SECURITIES – INSTITUTIONAL DIVISION

($ millions)	% change	1997	1996
Gross revenues	35%	$ 1,032	$ 765
Average assets	28%	$74,600	$58,500

- Revenues grew by 35% with strong performance in all areas.
- Revenues from Global Markets grew by 28% to $556 million.
- Revenues from Institutional Equity increased 44% to $258 million.
- Investment banking revenues grew 46% to $218 million.

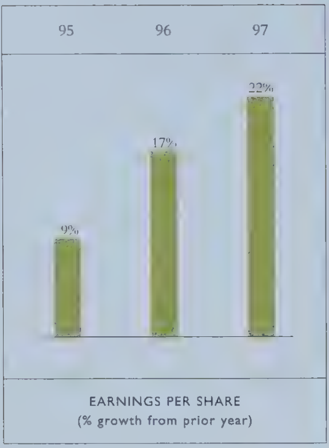
Objectives

1. Maintain position as market leader in debt and equity financing and merger and acquisition advice.
2. Build upon top presence in equity and fixed income sales, trading and research with new product capabilities which provide innovative solutions.
3. Become one of the world's top ten foreign exchange banks.
4. Focus on maximizing long-term profitability.

Strategies

- Focus on industry specialization and coordination of the group's corporate lending function with targeted efforts of RBC DS division.
- Remain the leading investment dealer serving Canadian institutional clients.
- Foster still greater interdepartmental cooperation on innovative solutions in the debt and equity capital markets, building upon recent high yield debt and equity derivative success.
- Invest in technology to better monitor cross-market flows.
- Control costs by centralizing operations, rationalizing systems and investing in electronic platforms.
- Expand selectively internationally to augment product expertise for preferred industry sectors.

1997 performance: an overview



Pick up in EPS growth

HIGHLIGHTS

- Return on common shareholders' equity of 19.3%, up from 17.6% in 1996.
- Earnings per share of $5.01, up 22% from 1996.
- Fourth consecutive year of record earnings.
- Net income from personal and commercial banking up 19%, wealth management 20% higher, and corporate and investment banking up 128%.
- International net income 28% of total versus 51% in 1996. 1996 earnings reflected $300 million reversal of country risk provision and LDC bond sale proceeds of $79 million versus $13 million in 1997.
- Revenues of $9.3 billion, up 17%.
- Ratios for impaired loans and loss provisions down to .1% and .25%, respectively.
- Balance sheet management initiatives undertaken.
- Common share dividends up 14%.

Revenue growth and diversification (more details on pages 40-44)

In 1997, revenues were up 17%, with other income 31% higher and net interest income up 8%. The rapid growth in other income reflected the health of the Canadian economy and capital markets. This led to higher revenues from mutual funds, brokerage and investment banking, trading, securities custody, investment management and card services. Despite narrower margins, net interest income rose due to growth in loans to consumers and small businesses. Part of this growth resulted from gains in market shares of residential mortgages and personal loans.

Efficiency improvement (detailed on pages 45-47)

The efficiency ratio was 65.0%, but 64.0% excluding a $65 million restructuring charge for RBC Dominion Securities' acquisition of Richardson Greenshields and several one-time items this year. On further excluding all revenues and expenses for RBC Dominion Securities, the efficiency ratio was 61.8% versus 62.2% in 1996. Strong capital markets this year enabled RBC Dominion Securities to generate higher revenues, but also led to correspondingly higher variable expenses.

TABLE 1 EARNINGS PER SHARE AND NET INCOME GROWTH	EARNINGS PER SHARE $		NET INCOME $ MILLIONS	
	1997	1996	1997	1996
Earnings per share/Net income	$5.01	$4.09	$1,679	$1,430
Growth over prior year	$ .92	$ .60	$ 249	$ 168
Growth by business segment *(1) (2)*				
Personal & commercial banking	$ .53	$ –	$ 165	$ 1
Wealth management	.13	.22	41	69
Corporate & investment banking	.62	(.55)	192	(174)
Other *(3)*	(.36)	.93	(149)	272
Growth by component *(1)*				
Net interest income	$ .71	$ .19	$ 218	$ 59
Other income	2.00	1.04	618	327
Gross revenues	2.71	1.23	836	386
Provision for credit losses	.12	.28	37	87
Non-interest expenses	(1.86)	(.90)	(574)	(282)
Other *(2)*	(.05)	(.01)	(50)	(23)

(1) On an after-tax basis.
(2) For business segment income statements, see pages 22, 28 and 32.
(3) Change in effective tax rate, non-controlling interest and, for earnings per share only, preferred share dividends.

TABLE 2 HIGHLIGHTS OF DOMESTIC AND INTERNATIONAL EARNINGS	DOMESTIC		INTERNATIONAL		TOTAL	
($ MILLIONS)	1997	1996	1997	1996	1997	1996
Net interest income *(1)*	$4,352	$3,995	$ 680	$ 680	$5,032	$4,675
Other income	3,576	2,603	703	663	4,279	3,266
Gross revenues	7,928	6,598	1,383	1,343	9,311	7,941
Provision for credit losses	315	740	65	(300)	380	440
Non-interest expenses	5,315	4,447	738	665	6,053	5,112
Income taxes and non-controlling interest *(2)*	1,091	713	108	246	1,199	959
Net income	$1,207	$ 698	$ 472	$ 732	$1,679	$1,430

(1) Taxable equivalent basis.
(2) Includes taxable equivalent adjustment.

Credit quality (further details on pages 48-52)

The quality of the credit portfolio improved further. Net impaired loans declined by 80% to represent .1% of loans and bankers' acceptances at the end of 1997, compared to .4% a year ago. Similarly, the provision for credit losses declined by 14% and accounted for .25% of average loans and bankers' acceptances versus .34% in 1996. The bank increased its general provision in the fourth quarter by $50 million, raising it to $750 million or .51% of risk-adjusted assets.

Balance sheet and capital management (more details on pages 53-58)

To control growth in risk-adjusted assets and enhance capital ratios, the bank insured $6.9 billion of residential mortgages and securitized $1.5 billion of credit card receivables. Capital ratios were also strengthened by $1.1 billion of internally generated capital (up from $790 million in 1996) and by the issuance of $1.6 billion of debentures.

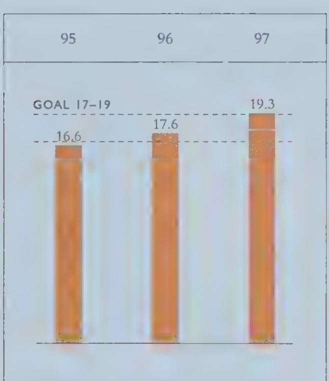
1997 performance versus medium-term (3-5 year) goals

In establishing its 3-5 year goals, the bank takes into consideration expected economic and market conditions, rates of return earned in the financial services industry, the bank's previous performance and expected changes in its business mix.

TABLE 3 FINANCIAL PERFORMANCE AND GOALS

	MEDIUM-TERM GOALS		PERFORMANCE		
	NEW	OLD	1997	1996	1995
Profitability					
Return on common shareholders' equity	17-19%	16-18%	19.3%	17.6%	16.6%
Efficiency (1)	59.5%	58.0%	65.0%	64.4%	63.6%
Provision for credit losses (2)	.35-.45%	.35-.45%	.25%	.34%	.48%
Dividend payout ratio (3)	30-40%	30-40%	30.3%	32.5%	33.8%
Capital adequacy					
Common equity to risk-adjusted assets	6.0%	6.0%	5.8%	6.0%	5.8%
Tier 1 capital	7.0%	–	6.8%	7.0%	6.9%
Total capital	10.0%	–	10.0%	9.4%	9.8%

(1) Non-interest expenses as a % of gross revenues on a taxable equivalent basis.
(2) As a % of average loans and bankers' acceptances.
(3) Common dividends as a % of net income after preferred dividends.



RETURN ON COMMON SHAREHOLDERS' EQUITY (%)

ROE up 170 basis points

Return on common shareholders' equity (ROE)

GOAL

- 3-5 year ROE goal reflects the bank's desire to provide a greater premium over the long-term risk-free rate of return (as represented by the yield on 10-year Government of Canada bonds) than is available on similar equity investments.
- Raised the goal in the fourth quarter from a range of 16-18% to 17-19%.

PERFORMANCE

- ROE of 19.3%, up from 17.6% in 1996.
- Grew the high-ROE wealth management, and personal and commercial banking segments, and improved ROE of corporate and investment banking.
- Repurchase of 4.1 million common shares in the first half of 1997 enhanced ROE by 30 basis points.

BUSINESS SEGMENT EFFICIENCY RATIO

	1997	3-5 YEAR GOAL
Personal and commercial	63.6%	56.5%
Wealth management	77.9%	71.0%
Corporate and investment	57.2%	51.0%
Total	65.0%	59.5%

Efficiency

GOAL

- Efficiency ratio goal of 58% raised to 59.5% in the fourth quarter of 1997. This reflects expected growth in businesses with high ROEs, but also high efficiency ratios.
- Aggressive efficiency enhancement goals for business segments: personal and commercial banking targeting reduction of 710 basis points, wealth management of 690 basis points, and corporate and investment banking of 620 basis points (see table to the left).
- Aim to achieve this goal by growing revenues faster than expenses.

PERFORMANCE

- Efficiency ratio of 64.0% excluding one-time items and restructuring charges, and also excluding RBC Dominion Securities 61.8% versus 62.2% in 1996.
- Efficiency ratio for personal and commercial banking improved to 63.6% from 64.8% in 1996. Excluding RBC Dominion Securities, ratio was 72.0% in wealth management versus 73.6% last year and 44.1% in corporate and investment banking versus 41.7% in 1996.

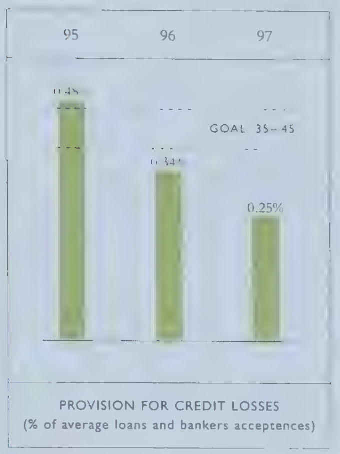
Provision for credit losses

GOAL

- Maintain, over a full economic cycle, a provision for credit losses of between .35% and .45% of average loans and bankers' acceptances.

PERFORMANCE

- Provision for credit losses of .25%, down from .34% in 1996.
- Of the 9 basis point improvement, 5 basis points resulted from lower credit loss provisions and 4 basis points from higher average loans and bankers' acceptances.



Strong credit performance

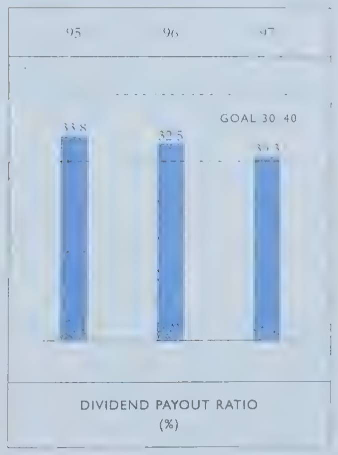
Dividend payout ratio

GOAL

- Reflects balance between need to retain earnings to finance future growth and provide current income to shareholders.
- Maintained goal at 30-40% in 1997.

PERFORMANCE

- Dividend payout ratio of 30.3%.
- Quarterly common share dividend increased from 34 to 37 cents in the first quarter and to 39 cents in the third quarter.
- Dividends of $1.52 in 1997, up 14% from 1996.



Dividend payout in target range

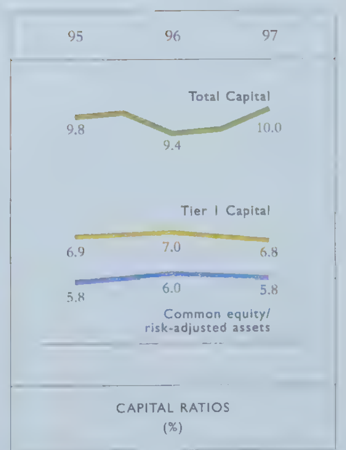
Capital adequacy

GOALS

- Reflect desire to maintain competitive capital ratios and retain strong debt ratings.
- Maintained goal for common equity to risk-adjusted assets at 6%. Goals for Tier 1 and Total capital added in 1997.

PERFORMANCE

- Met Total capital ratio target of 10.0%, up from 9.4% in 1996.
- Common equity to risk-adjusted assets and Tier 1 capital ratios slightly below 3-5 year goals due to rapid loan growth.



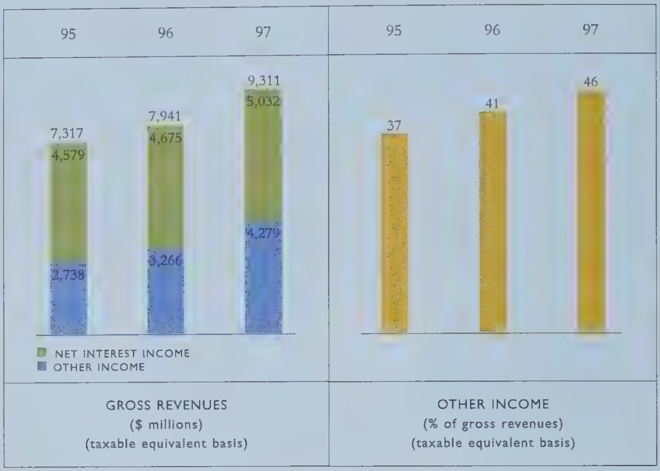
Capital ratios approaching targets

Strategic priority #1

Revenue growth and diversification

HIGHLIGHTS

- Growth in revenues of 17% surpassed objective for 1997 of 5%.
- Revenue growth was 16% excluding $115 million of one-time revenues and 9% also excluding RBC Dominion Securities.
- More aggressive revenue growth objective of 5-10% established for 1998.
- Other income grew by 31% and accounted for 46% of 1997 revenues versus 41% in 1996.
- Net interest income rose by 8%.
- Net interest margin narrowed by 18 basis points.



Other income drives revenue growth

Other income ratio up 500 basis points

Net interest income

Net interest income increased by 8% to $5.0 billion in 1997.

Two major factors behind a $357 million increase in net interest income were higher asset volumes (partly the result of market share gains in residential mortgages and personal loans) and lower mortgage funding costs (reflecting lower interest rates). These positive factors were partially offset by an increase in lower-yielding assets such as reverse repurchase agreements and securities held by RBC Dominion Securities. As well, there was a significant narrowing of the spread between the prime rate and core deposit funding costs.

As shown in Table 4, the net interest margin (net interest income as a percentage of average assets) fell 18 basis points from last year to 2.10%. This partly reflects a decline in the average prime rate to 4.8% from 6.7% in 1996. The average prime rate fell more rapidly than did retail deposit costs, resulting in narrower spreads. In addition, higher holdings of lower-yielding assets exacerbated the narrowing of the net interest margin. However, lower mortgage funding costs had a favourable impact on this year's net interest margin.

OUTLOOK

- For 1998, the bank expects similar growth in net interest income. The strength of the Canadian economy should result in solid loan growth. As well, the net interest margin is expected to rise somewhat from its currently depressed levels.

TABLE 4 CHANGE IN NET INTEREST MARGIN

	1997	1996
Net interest margin *(1)*	2.10 %	2.28 %
Change from prior year	(.18)%	(.21)%
Components of change:		
Lower mortgage funding costs	.14	.05
Change in asset mix	(.22)	(.16)
Narrower prime-core deposit spread	(.10)	(.12)
Other	–	.02

(1) Net interest income, on a taxable equivalent basis, as a percentage of average total assets.

Other income

Other income spearheaded most of the bank's profit growth in 1997.

As shown in Table 6, almost all sources of other income recorded double-digit percentage gains over last year's already high levels. Overall, other income was up 31% to $4.3 billion and grew to account for 46% of total revenues.

As shown in Table 5, other income from wealth management was up 61% and represented 84% of this segment's revenues. Other income in corporate and investment banking grew 23% to account for 60% of its revenues, while personal and commercial banking's other income rose by 14% and represented 25% of its total revenues.

Excluding one-time gains of $115 million in 1997 (described in the footnote to Table 6), other income was up 28% from last year.

Capital market fees were up sharply, reflecting a rising stock market, record volumes of stock trading, and the underwriting of new securities by RBC Dominion Securities. The acquisition of Richardson Greenshields on November 1, 1996 also added to capital market fees.

Strong growth in mutual fund fees reflected a $7.6 billion or 45% increase in the assets managed by Royal Mutual Funds. Of this amount, $2.1 billion represented capital appreciation and $5.5 billion net inflows of money – the highest net inflows among all mutual fund companies in Canada. The bank's extensive distribution network and effective sales and service, as well as strong market conditions, contributed to the growth in assets under management.

TABLE 5 OTHER INCOME BY BUSINESS SEGMENT			
($ MILLIONS)	1997	GROWTH 1997/1996	1997 % OF SEGMENT REVENUES
Personal & commercial banking	$1,359	14%	25%
Wealth management	1,708	61	84
Corporate & investment banking	1,097	23	60
Other	115	n/a	n/a
	$4,279	31%	46%

Higher investment management and custodial fees reflected increases of 50% in assets under administration and 32% in assets under management. This growth was partially due to the March 31, 1997 acquisition of Scotiabank's and Montreal Trust's custody business with $120 billion of assets under administration.

Revenues from card services rose, reflecting growing usage of credit cards. At the same time, the credit card delinquency ratio fell sharply during the year (see page 48).

Foreign exchange revenues (other than trading) rose partially due to greater demand for foreign currencies in the bank's branch network.

Insurance revenues grew rapidly, largely due to creditor life and disability programs and the contribution from Westbury Canadian Life Insurance Company. While insurance revenues remain relatively small, they offer significant potential for future growth.

In previous years, gains and losses on securities were recorded in net interest income. Effective November 1, 1996, a new accounting standard requires the inclusion of gains and losses on securities in other income. Realized and unrealized gains and losses on trading account securities are included in trading revenues while realized gains and losses on investment account securities are shown separately in Tables 6 and 10. Prior-period amounts have been restated for purposes of comparison. Given the strength of financial markets, trading revenues rose sharply this year with

TABLE 6 OTHER INCOME GROWTH	1997		1996	
	($ MILLIONS)	%	($ MILLIONS)	%
Total other income	$4,279		$3,266	
Change from prior year	$1,013	31%	$ 528	19%
Components of change:				
Capital market fees	$ 408	53%	$ 330	76%
Trading revenues	238	65	6	2
One-time gains (1)	115	n/a	–	n/a
Mutual fund revenues	113	47	51	27
Investment management and custodial fees	85	27	33	12
Card service revenues	50	18	4	1
Foreign exchange revenues, other than trading	46	28	25	18
Revenues from insurance activities	32	46	(34)	(33)
Gain (loss) on investment account securities	(70)	(65)	90	529
Other	(4)	–	23	2

(1) One-time gains in 1997 consisted of $70 million from the sale of the payroll technologies business and $65 million (net of expenses) from the cancellation of the planned acquisition of London Insurance Group, offset in part by $20 million of minor asset write-offs and losses.

Revenue growth and diversification (continued)

Other income (continued)

$190 million of the increase attributable to trading account securities gains. However, gains on investment account securities fell as the bank realized only $13 million from the sale of LDC bonds versus $79 million in 1996.

The bank's LDC exposure totals $715 million ($279 million net of a country risk provision). The exposure comprises mostly bonds received in lieu of principal payments due from Brazil and Argentina under Brady-type debt restructuring plans. At October 31, 1997, the market value of the LDC portfolio exceeded its net book value by $268 million.

OUTLOOK

- The bank expects single-digit growth in other income in 1998. A setback in financial markets may occur after two consecutive years of exceptionally strong market performance. Any setback would curtail growth in components of other income such as capital market fees and trading revenues.

Trading revenues

Trading revenues include gains and losses on securities and derivatives which are traded actively, are expected to be held for short periods, and whose values are marked-to-market daily. A description of trading revenues included in net interest income and other income are provided in footnotes 1 and 2 to Table 7 below.

Trading revenues were up 6% in net interest income, up 65% in other income, and up 45% overall. This partly reflects healthy growth in financial markets and the formation on November 1, 1996, of RBC DS Global Markets. Under this combination, the trading division of the bank was combined with RBC DS's Global Fixed Income Group, which has created beneficial synergies. Such synergies include much improved flows of information and broader product capabilities. This enabled the group to achieve a higher level of market penetration.

Trading revenues from debt instruments were up 63% from 1996. This reflects the synergies mentioned above and much higher levels of activity in the debt markets. Debt origination, distribution and trading generated much higher revenues this year.

Revenues from equity, commodity and precious metal contracts soared 144%. This primarily reflects the activities of the bank's Global Equity Derivatives Group in New York. Derivatives are becoming increasingly important for large institutional investors, and particularly for those who invest in overseas equity markets.

TABLE 7 TRADING REVENUES

($ MILLIONS)	1997	1996	1995
Net interest income (1)	$194	$183	$142
Other income (2)	606	368	362
Total	$800	$551	$504
By product:			
Interest rate risk management contracts (3)	$ 14	$ 21	$ 51
Foreign exchange (4)	226	217	203
Debt instruments (5)	409	251	210
Equity, commodity and precious metal contracts	151	62	40
Total	$800	$551	$504

(1) Interest earned on trading securities and other cash instruments held in the trading portfolios less funding costs associated with trading related derivative and security positions.
(2) Primarily realized and unrealized gains and losses on trading securities and derivative instruments and foreign exchange trading activities.
(3) Includes swaps, interest rate options, interest rate futures, forward rate agreements and related cash instruments used to hedge the trading derivatives portfolios.
(4) Includes foreign exchange spot, forward, futures and options contracts.
(5) Includes Canadian government securities and corporate debt instruments.

TABLE 8 NET INTEREST INCOME ON AVERAGE ASSETS AND LIABILITIES

($ MILLIONS, TAXABLE EQUIVALENT BASIS)	1997			1996			1995		
	AVERAGE BALANCES (1)	INTEREST (2)	AVERAGE RATE	AVERAGE BALANCES (1)	INTEREST (2)	AVERAGE RATE	AVERAGE BALANCES (1)	INTEREST (2)	AVERAGE RATE
ASSETS									
Deposits with other banks									
Non-interest bearing	$ 89	$ –	–%	$ 78	$ –	–%	$ 258	$ –	–%
Interest									
Domestic	1,530	42	2.75	1,465	68	4.64	1,238	83	6.70
International	18,075	967	5.35	15,880	854	5.38	12,578	734	5.84
	19,694	1,009	5.12	17,423	922	5.29	14,074	817	5.81
Securities									
Investment account	21,665	1,272	5.87	22,119	1,557	7.04	18,652	1,364	7.31
Trading account	19,278	1,031	5.35	14,775	832	5.63	10,831	737	6.80
Loan substitute	823	76	9.23	682	71	10.41	839	93	11.08
	41,766	2,379	5.70	37,576	2,460	6.55	30,322	2,194	7.24
Loans *(3)*									
Residential mortgages	50,591	3,598	7.11	46,324	3,756	8.11	44,280	3,792	8.56
Personal	19,986	1,429	7.15	16,943	1,493	8.81	16,480	1,642	9.96
Credit cards	3,530	415	11.76	3,447	457	13.26	3,371	444	13.17
Business and government	57,477	4,010	6.98	51,056	3,784	7.41	47,267	3,942	8.34
Assets purchased under reverse repurchase agreements	14,038	499	3.55	5,503	366	6.65	3,719	237	6.37
	145,622	9,951	6.83	123,273	9,856	8.00	115,117	10,057	8.74
Total earning assets	207,082	13,339	6.44	178,272	13,238	7.43	159,513	13,068	8.19
Customers' liability under acceptances	8,790	–	–	7,105	–	–	6,342	–	–
Other assets	23,628	–	–	19,523	–	–	17,945	–	–
Total assets	$239,500	$13,339	5.57%	$204,900	$13,238	6.46%	$183,800	$13,068	7.11%
LIABILITIES AND SHAREHOLDERS' EQUITY									
Deposits									
Non-interest bearing	$ 9,133	$ –	–%	$ 7,351	$ –	–%	$ 7,212	$ –	–%
Personal	84,795	3,195	3.77	88,270	4,436	5.03	84,670	4,658	5.50
Business and government	51,652	2,277	4.41	36,070	1,842	5.11	32,313	1,947	6.03
Banks	20,669	1,076	5.21	15,700	837	5.33	12,491	757	6.06
	166,249	6,548	3.94	147,391	7,115	4.83	136,686	7,362	5.39
Subordinated debentures	4,581	384	8.38	3,604	322	8.93	3,663	335	9.15
Other interest-bearing liabilities	28,510	1,375	4.82	19,067	1,126	5.91	11,130	792	7.12
	199,340	8,307	4.17	170,062	8,563	5.04	151,479	8,489	5.60
Acceptances	8,790	–	–	7,105	–	–	6,342	–	–
Other liabilities	21,626	–	–	18,529	–	–	17,186	–	–
	229,756	8,307	3.62	195,696	8,563	4.38	175,007	8,489	4.85
Shareholders' equity									
Preferred	1,741	–	–	1,884	–	–	2,166	–	–
Common	8,003	–	–	7,320	–	–	6,627	–	–
Total liabilities and shareholders' equity	$239,500	$8,307	3.47%	$204,900	$8,563	4.18%	$183,800	$8,489	4.62%
NET INTEREST INCOME	$239,500	$5,032	2.10%	$204,900	$4,675	2.28%	$183,800	$4,579	2.49%

(1) Calculated on a daily basis.
(2) Interest income includes loan fees (1997 – $192 million; 1996 – $169 million; 1995 – $161 million).
(3) Includes impaired loans, and is net of the allowance for credit losses.

TABLE 9 CHANGES IN NET INTEREST INCOME

($ MILLIONS)	1997 vs 1996			1996 vs 1995		
	INCREASE (DECREASE) DUE TO CHANGES IN			INCREASE (DECREASE) DUE TO CHANGES IN		
	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE	AVERAGE VOLUME (1)	AVERAGE RATE (1)	NET CHANGE
Assets						
Deposits with other banks	$ 117	$ (30)	$ 87	$ 182	$ (77)	$ 105
Securities						
Investment account	(31)	(254)	(285)	246	(53)	193
Trading account	242	(43)	199	237	(142)	95
Loan substitute	13	(8)	5	(17)	(5)	(22)
Loans						
Residential mortgages	328	(486)	(158)	170	(206)	(36)
Personal	244	(308)	(64)	45	(194)	(149)
Credit cards	11	(53)	(42)	10	3	13
Business and government	457	(231)	226	301	(459)	(158)
Assets purchased under reverse repurchase agreements	363	(230)	133	119	10	129
Total interest income	1,744	(1,643)	101	1,293	(1,123)	170
Liabilities						
Deposits						
Personal	(169)	(1,072)	(1,241)	192	(414)	(222)
Business and government	712	(277)	435	211	(316)	(105)
Banks	259	(20)	239	178	(98)	80
Subordinated debentures	83	(21)	62	(5)	(8)	(13)
Other interest-bearing liabilities	483	(234)	249	488	(154)	334
Total interest expense	1,368	(1,624)	(256)	1,064	(990)	74
Net interest income	$ 376	$ (19)	$ 357	$ 229	$ (133)	$ 96

(1) Volume/rate variance is allocated based on the percentage relationship of changes in balances and changes in rates to the total net change in net interest income on a taxable equivalent basis.

TABLE 10 OTHER INCOME

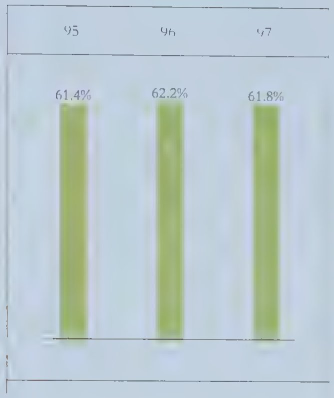
($ MILLIONS)	1997	1996	1995	1994	1993
Capital market fees	$1,172	$ 764	$ 434	$ 567	$ 456
Deposit and payment service charges	690	701	681	661	649
Investment management and custodial fees	404	319	286	278	101
Card service revenues	332	282	278	258	203
Mutual fund revenues	354	241	190	202	64
Trading revenues	606	368	362	345	414
Foreign exchange revenues, other than trading	211	165	140	134	107
Credit fees	169	153	156	156	152
Revenues from insurance activities	102	70	104	100	61
Gain on investment account securities	37	107	17	49	169
Gain (loss) on disposal of premises and equipment	(24)	9	(6)	(5)	(14)
Other	226	87	96	118	89
Total	$4,279	$3,266	$2,738	$2,863	$2,451

Strategic priority #2

Efficiency improvement

HIGHLIGHTS

- Non-interest expenses up 9% excluding one-time expenses and those relating to RBC Dominion Securities (RBC DS).
- Efficiency ratio of 65.0% versus overall target for 1997 of 63.4%. Excluding one-time revenues and expenses and those relating to RBC DS, efficiency ratio of 61.8% compared to 62.2% in 1996.
- Goal of 200 basis point improvement in efficiency ratio in 1998.



EFFICIENCY RATIO, EXCLUDING RBC DOMINION SECURITIES AND ONE-TIME ITEMS

Core efficiency ratio improves

Non-interest expenses

Growth of 9%, excluding one-time items and RBC DS, largely reflected expansion in high-growth businesses and volume increases in traditional businesses.

The total efficiency (cost-to-revenue) ratio increased to 65.0% from 64.4% in 1996. However, excluding one-time revenues and expenses and the results for RBC DS from both years, the efficiency ratio was 61.8% in 1997, down from 62.2% last year.

One-time gains totalled $115 million this year and nil last year and are described under Table 6 on page 41.

The one-time expenses amounted to $167 million in 1997 and $70 million in 1996. This year's one-time expenses comprised a $65 million restructuring charge for Richardson Greenshields and a $40 million charge in the fourth quarter for reconfiguring the branch network. They also related to the accelerated depreciation of personal computers, write-offs of software, and the acquisition of the institutional and pension custody business of Montreal Trust and Scotiabank. Last year's $70 million of one-time expenses were associated with a document processing joint venture with two other Canadian banks, restructuring of the business banking and corporate groups, two acquisitions (life insurance and custody), and the formation of RBC DS Global Markets.

Of the $941 million increase in non-interest expenses this year, shown in Table 11 on page 46, $97 million related to the one-time expenses just discussed and $550 million to RBC DS (excluding the Richardson Greenshields restructuring charge already included in one-time expenses). RBC DS had one of the best years in its history, resulting in higher revenues and, as a result, greater variable compensation expenses. Excluding the one-time expenses and RBC DS, non-interest expenses were up 9% from 1996, reflecting expansion in high-growth businesses and volume increases in traditional businesses.

Table 11 also shows the major categories of growth in non-interest expenses. The increase in human resource costs largely reflects higher compensation at RBC DS, and 1,029 more employees in the group at the end of 1997 than a year earlier (other than the 1,485 additional employees related to this year's two acquisitions). The higher employee number reflects current and planned

Efficiency improvement (continued)

growth in areas such as virtual banking, mutual funds, insurance and discount brokerage.

Higher communication costs related largely to greater business volumes in telephone banking, full-service brokerage and discount brokerage.

Equipment costs were higher mainly due to new computer equipment and upgrades.

The increase in occupancy expenses related to costs associated with network streamlining during the year.

TABLE 11 NON-INTEREST EXPENSE GROWTH

	1997		1996	
	($ MILLIONS)	%	($ MILLIONS)	%
Total non-interest expenses	$6,053		$5,112	
Change from prior year	$ 941	18%	$ 455	10%
Components of change:				
Human resources	$ 510	18%	$ 251	10%
One-time expenses	97	139	26	59
Communications	64	12	62	13
Equipment	58	12	26	6
Occupancy	29	6	14	3
Other	183	25	76	25

OUTLOOK

➤ The bank is targeting a 200 basis point improvement in the overall efficiency ratio in 1998 as each business segment is expected to move closer to its 3-5 year efficiency goal, shown on page 38.

Income and other taxes

Income and other taxes were $1.5 billion, up 9% from 1996.

As shown in Table 13 on page 47, the provision for income taxes rose by $97 million, reflecting greater earnings and a higher effective tax rate.

As shown in Note 12 to the financial statements on page 85, the 38.3% effective tax rate differed from the statutory income tax rate of 42.9% due to lower tax rates for certain subsidiaries and the tax-exempt nature of income from loan substitute securities.

Note 12 also shows that current income taxes in 1997 were $703 million while deferred income taxes were $229 million. The latter related largely to credit losses in 1992 and 1993 which, although expensed through the income statement, could not be claimed for tax purposes as the bank had insufficient taxable income. A portion of these losses was claimed against 1994-1997 taxable income and, as a result, the bank's net deferred tax asset declined from $1.6 billion in 1994 to $874 million in 1997.

Contributing to the $29 million increase in other taxes were higher payroll taxes, which include contributions to government pension and health programs, and unemployment insurance premiums.

TABLE 12 NON-INTEREST EXPENSES

($ MILLIONS)	1997	1996	1995	1994	1993
Human resources	$3,365	$2,851	$2,563	$2,675	$2,310
Occupancy					
Net premises rent	317	275	251	240	223
Premises repairs and maintenance	88	87	78	94	86
Depreciation	84	75	72	87	65
Property taxes	37	37	38	43	37
Energy	33	33	34	36	33
	559	507	473	500	444
Equipment					
Depreciation	298	250	283	244	207
Office and computer rental and maintenance	307	242	223	216	189
	605	492	506	460	396
Communications					
Telecommunications	188	161	140	140	120
Postage and courier	164	145	130	128	111
Marketing and public relations	134	123	103	96	72
Stationery and printing	101	94	88	86	74
	587	523	461	450	377
Other					
Professional fees	228	165	147	113	86
Business and capital taxes	126	123	116	117	120
Deposit insurance	115	118	116	100	62
Travel and relocation	95	80	83	71	57
Amortization of goodwill	59	38	38	48	35
Employee training	52	42	34	27	24
Donations	21	20	16	17	14
Other	241	153	104	83	80
	937	739	654	576	478
Restructuring costs	–	–	–	–	410
Total	$6,053	$5,112	$4,657	$4,661	$4,415

TABLE 13 INCOME AND OTHER TAXES

($ MILLIONS)	1997	1996	1995	1994	1993
Income taxes					
Provision for income taxes					
Statement of income	$1,090	$ 880	$ 755	$ 655	$ (5)
Taxable equivalent adjustment	32	30	40	49	61
	1,122	910	795	704	56
Retained earnings *(1)*	(158)	(43)	22	(95)	(90)
	964	867	817	609	(34)
Other taxes					
Payroll taxes	166	152	145	144	123
Goods and services tax, and sales taxes	146	135	133	130	112
Provincial capital taxes	81	85	77	77	76
Property taxes *(2)*	49	48	49	55	46
Business taxes	45	38	39	40	44
	487	458	443	446	401
Total	$1,451	$1,325	$1,260	$1,055	$367
Effective income tax rate *(3)*	38.3%	37.3%	37.0%	35.2%	–

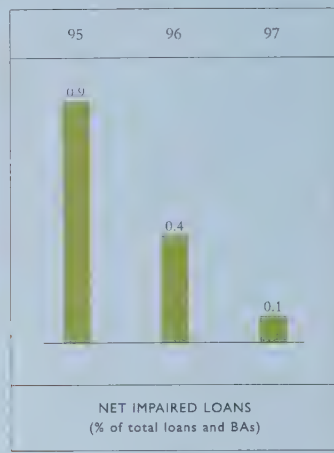
(1) The income taxes reported in retained earnings principally relate to the hedging of foreign currency exposure on foreign operations.
(2) Includes amounts netted against other income regarding investment properties.
(3) Income taxes reported in the Statement of Income, as a percentage of net income before taxes. The tax rate for 1993 is not meaningful.

Strategic priority #3

Strong credit quality

HIGHLIGHTS

- Net impaired loans fell to .1% of total loans and bankers' acceptances from .4% in 1996.
- Provision for credit losses declined to .25% of average loans and bankers' acceptances from .34% last year.
- $50 million was added to the general provision in the fourth quarter, raising it to $750 million or .51% of risk-adjusted assets.
- Coverage ratio, excluding LDCs, was 94%, up from 77% a year ago.



Substantial improvement in impaired loans

Impaired loans

Both gross and net impaired loans declined for the fourth consecutive year.

As shown in Table 14 on page 49, the $557 million decline in gross impaired loans largely reflects $638 million of write-offs. Net additions to gross impaired loans were $81 million, down from $384 million in 1996.

As shown in Table 15 on page 50, gross impaired loans declined in most categories and geographic regions, with the exception of personal loans, Asia Pacific, U.S.A. and British Columbia.

Accounts classified as impaired in China in 1996 showed further deterioration which was unrelated to the recent economic turmoil in Asia. The bank also recorded some minor provisions for credit losses on its remaining Asian exposure, following the difficulties of some Asian economies, financial institutions and companies at the end of 1997.

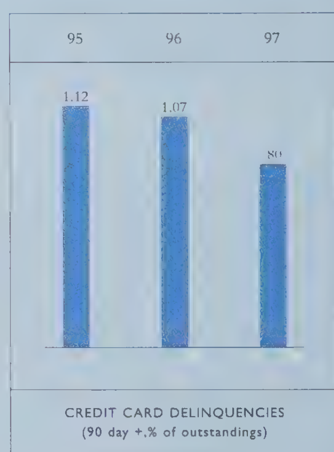
The increase in gross impaired loans in British Columbia related partially to the consumer loan portfolio, while that in the U.S.A. stemmed from two accounts. However, the net impaired loan ratio in the U.S.A. was .2% in 1997, below the ratio for the total international loan portfolio.

The quality of the credit card portfolio improved, with the over 90 day deliquency ratio declining to .80% from 1.07% in 1996.

Total net impaired loans fell substantially from $524 million in 1996 to $103 million, representing .1% of total loans and bankers' acceptances versus .4% a year ago.

OUTLOOK

- The bank does not expect a significant change in its net impaired loans ratio in 1998.



Credit card quality improves

TABLE 14 CHANGES IN IMPAIRED LOANS

($ MILLIONS)	1997	1996	1995	1994	1993
Gross impaired loans at beginning of year	$2,376	$2,944	$4,424	$7,582	$7,056
Additions	705	1,013	n/a	n/a	n/a
Reductions	(624)	(629)	n/a	n/a	n/a
Net additions (reductions)	81	384	(255)	(1,128)	1,643
Write-offs, including translation adjustments	(638)	(952)	(1,225)	(2,030)	(1,117)
Gross impaired loans at end of year	1,819	2,376	2,944	4,424	7,582
Specific provisions	(932)	(1,091)	(1,439)	(1,962)	(2,667)
Country risk provision (1)	(34)	(61)	(57)	(69)	(1,107)
Net impaired loans, excluding general provision	853	1,224	1,448	2,393	3,808
General provision	(750)	(700)	(300)	(300)	(550)
Net impaired loans at end of year	$ 103	$ 524	$1,148	$2,093	$3,258

(1) Shown net of that portion that is in excess of impaired LDC loans.

Provision for credit losses

The provision for credit losses fell by 14% from 1996 to $380 million in 1997.

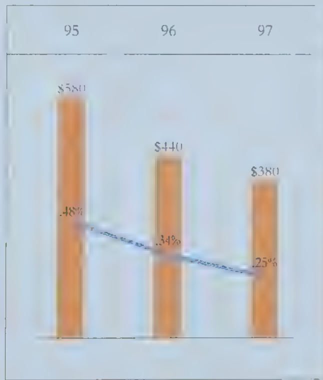
As shown in Table 16 on page 51, this year's provision amounted to .25% of average loans and bankers' acceptances, well below the .34% level of last year.

This year's $380 million provision for credit losses comprised $330 million of specific provisions and a $50 million addition to the general provision, raising the latter to $750 million or .51% of risk-adjusted assets. Specific provisions in 1996 had amounted to $340 million.

The only areas to record noticeable increases in specific provisions this year were British Columbia and Asia, for reasons mentioned in the impaired loans discussion on page 48. Most other areas required lower specific provisions in 1997.

OUTLOOK

➤ In 1998, the bank expects the ratio of provision for credit losses to total loans and bankers' acceptances to remain close to this year's level of .25%.



PROVISION FOR CREDIT LOSSES
($ millions & % of average loans and acceptances)

Loss provision down 14%

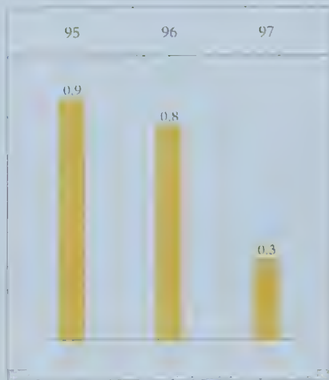
Allowance for credit losses

The allowance for credit losses was $2.1 billion and represented 1.3% of total loans and acceptances.

As shown in Note 5 to the financial statements on page 80, the allowance for credit losses consisted of $932 million of specific provisions, a $750 million general provision and a $436 million country risk provision.

Although $330 million of specific provisions were charged to income in 1997, specific provisions in the allowance for credit losses fell by $159 million, due to write-offs during the year. However, write-offs declined by 41% from last year and, net of recoveries, totalled .3% of average loans and bankers' acceptances versus .8% in 1996 and .9% in 1995.

As shown in Table 17 on page 52, the coverage ratio, excluding LDCs, was 94% compared to 77% in 1996.



NET WRITE-OFFS
(% of loans and bankers' acceptances)

Decline in write-off ratio

TABLE 15 IMPAIRED LOANS BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

($ MILLIONS)	1997 GROSS	1997 NET (1)	1996 GROSS	1996 NET (1)	1995 NET (1)	1994 NET (1)	1993 NET (1)
Domestic							
Atlantic provinces	$ 64	$ 30	$ 61	$ 32	$ 46	$ 88	$ 82
Quebec	378	185	544	320	173	265	209
Ontario	583	203	1,020	437	893	1,479	2,207
Prairie provinces	369	278	390	296	88	196	475
British Columbia	83	45	52	31	52	57	254
Total Domestic	1,477	741	2,067	1,116	1,252	2,085	3,227
Consisting of:							
Business loans							
Commercial real estate	348	184	599	320	634	1,011	1,202
Small business	187	64	205	71	150	134	214
Agriculture	46	34	51	40	58	73	91
Other	577	284	907	522	202	622	1,378
	1,158	566	1,762	953	1,044	1,840	2,885
Residential mortgages	166	114	188	123	167	179	225
Personal loans	153	61	117	40	41	66	117
Total Domestic	1,477	741	2,067	1,116	1,252	2,085	3,227
International							
United States	42	24	22	2	21	145	103
Europe	43	21	86	35	115	97	145
Latin America and Caribbean	91	52	84	52	60	56	77
Asia Pacific	132	15	54	19	–	10	23
	308	112	246	108	196	308	348
LDC loans	34	–	63	–	–	–	233
Total International	342	112	309	108	196	308	581
Total before general provision	1,819	853	2,376	1,224	1,448	2,393	3,808
General provision	–	(750)	–	(700)	(300)	(300)	(550)
Total after general provision	$1,819	$ 103	$2,376	$ 524	$1,148	$2,093	$3,258
Total loans and acceptances							
Domestic							
Residential mortgages		$ 52,782		$ 47,549	$ 44,564	$ 43,525	$ 43,177
Personal loans		20,114		17,738	16,218	15,907	16,021
Credit cards		2,324		3,522	3,435	3,321	3,090
Business and government loans and acceptances		58,131		50,017	43,070	41,581	43,410
		133,351		118,826	107,287	104,334	105,698
International		33,477		24,388	18,590	17,257	17,073
Total		$166,828		$143,214	$125,877	$121,591	$122,771
Net impaired loans as a percentage of related loans and acceptances							
Domestic							
Residential mortgages		.2%		.3%	.4%	.4%	.5%
Personal loans		.3		.2	.2	.4	.7
Business and government loans and acceptances		1.0		1.9	2.4	4.4	6.6
		.6		.9	1.2	2.0	3.1
International		.3		.4	1.1	1.8	3.4
Total before general provision		.5%		.9%	1.2%	2.0%	3.1%
Total after general provision		.1%		.4%	.9%	1.7%	2.7%

(1) Net of allowance for credit losses.

TABLE 16 PROVISION FOR CREDIT LOSSES BY GEOGRAPHIC AREA AND BY TYPE OF BUSINESS

($ MILLIONS)	1997	1996	1995	1994	1993
Provision for credit losses					
Domestic					
Specific provisions					
Atlantic provinces	$ 37	$ 34	$ 37	$ 56	$ 55
Quebec	149	165	60	189	110
Ontario	13	61	341	855	1,297
Prairie provinces	29	83	34	(36)	112
British Columbia	37	(3)	12	(28)	40
Total Domestic	265	340	484	1,036	1,614
Consisting of:					
Business loans					
Commercial real estate	(78)	(74)	73	362	777
Small business	69	89	101	184	127
Agriculture	1	(5)	1	(2)	4
Other	82	130	80	265	469
	74	140	255	809	1,377
Residential mortgages	12	29	43	21	38
Personal loans	114	95	123	153	149
Credit cards	65	76	63	53	50
Total Domestic	265	340	484	1,036	1,614
International					
Specific provisions					
United States	(8)	(14)	71	22	59
Europe	(24)	(22)	(6)	(1)	50
Latin America and Caribbean	14	2	28	16	44
Asia Pacific	83	34	3	(3)	8
	65	–	96	34	161
Country risk provision	–	(300)	–	–	(250)
Total International	65	(300)	96	34	(89)
Total before general provision	330	40	580	1,070	1,525
General provision	50	400	–	(250)	225
Total after general provision	$380	$440	$580	$ 820	$1,750
Average loans and acceptances					
Domestic					
Residential mortgages	$ 50,070	$ 45,810	$ 43,736	$ 43,358	$ 33,821
Personal loans	19,481	16,582	15,902	15,809	14,398
Credit cards	3,530	3,447	3,371	2,906	2,643
Business and government loans and acceptances	51,458	42,519	40,518	42,719	40,923
	124,539	108,358	103,527	104,792	91,785
International	29,873	22,020	17,932	16,949	16,777
Total	$154,412	$130,378	$121,459	$121,741	$108,562
Provision for credit losses as a percentage of related average loans and acceptances					
Domestic					
Residential mortgages	.02%	.06%	.10%	.05%	.11%
Personal loans	.59	.57	.77	.97	1.03
Credit cards	1.84	2.20	1.87	1.82	1.89
Business and government loans and acceptances	.14	.33	.63	1.89	3.36
	.21	.31	.47	.99	1.76
International	.22	(1.36)	.54	.20	(.53)
Total, including general provision	.25%	.34%	.48%	.67%	1.61%

TABLE 17 ALLOWANCE FOR CREDIT LOSSES

($ MILLIONS)	1997	1996	1995	1994	1993
Balance at beginning of year	$2,235	$2,669	$3,202	$4,324	$3,575
Provision for credit losses	380	440	580	820	1,750
Write-offs					
Domestic					
Residential mortgages	(34)	(46)	(29)	(44)	(18)
Personal loans	(138)	(133)	(134)	(152)	(167)
Credit cards	(98)	(104)	(90)	(82)	(73)
Business loans and acceptances	(361)	(542)	(839)	(1,499)	(616)
	(631)	(825)	(1,092)	(1,777)	(874)
International excluding LDCs	(28)	(124)	(125)	(109)	(339)
LDC exposures	(10)	(186)	–	(181)	(90)
	(669)	(1,135)	(1,217)	(2,067)	(1,303)
Recoveries					
Domestic					
Residential mortgages	9	11	–	1	–
Personal loans	21	21	18	17	12
Credit cards	32	28	26	28	23
Business loans and acceptances	62	65	58	42	62
	124	125	102	88	97
International	17	9	10	–	19
	141	134	112	88	116
Other adjustments	31	127	(8)	37	186
Balance at end of year	$2,118	$2,235	$2,669	$3,202	$4,324
Domestic					
Residential mortgages	$ 52	$ 65	$ 44	$ 23	$ 43
Personal loans	92	77	90	84	68
Business loans and acceptances	592	809	1,053	1,593	2,232
	736	951	1,187	1,700	2,343
International	632	584	1,182	1,202	1,431
	1,368	1,535	2,369	2,902	3,774
General provision	750	700	300	300	550
Total	$2,118	$2,235	$2,669	$3,202	$4,324
Coverage ratios *(1)*					
Domestic					
Residential mortgages	31%	35%	21%	11%	23%
Personal loans	60	66	69	56	37
Business and government loans and acceptances	51	46	50	46	44
Total excluding general provision	50	46	49	45	42
International excluding LDCs and general provision	64	56	56	46	48
Total excluding LDCs	94%	77%	60%	52%	52%

(1) Allowance for credit losses as a percentage of related gross impaired loans.

Strategic priority #4

Balance sheet and capital management

The bank is committed to enhancing capital ratios through solid internal capital generation, debenture financing when appropriate, and controlled growth in risk-adjusted assets, while at the same time seeking opportunities to profitably grow its balance sheet.

HIGHLIGHTS

- Residential mortgages and personal loans up by 11% and 13%, respectively.
- Market shares of residential mortgages and personal loans up by 50 and 130 basis points, respectively, over the past year.
- Insured $6.9 billion of residential mortgages and securitized $1.5 billion of credit card receivables, thereby reducing risk-adjusted assets by $4.9 billion.
- Internally generated capital of $1.1 billion.
- Debenture financing of $1.6 billion.

Asset growth

In 1997, on the strength of the Canadian economy, the bank grew its residential mortgage, personal loan and small business loan portfolios in order to meet its customers' needs and generate higher returns for its shareholders.

TABLE 18 ASSET GROWTH

	1997		1996	
	($ MILLIONS)	%	($ MILLIONS)	%
Total assets	$244,774		$231,498	
Growth over prior year	$ 13,276	6%	$ 35,468	18%
Components of growth:				
Loans				
Residential mortgages	$ 5,260	11%	$ 2,968	7%
Personal	2,403	13	1,528	9
Credit cards	(1,198)	(34)	87	3
Business and government	6,815	13	4,776	10
	13,280	11	9,359	8
Reverse repurchase agreements	7,196	63	6,855	149
Loans and reverse repurchase agreements	20,476	15	16,214	14
Securities	(10,453)	(24)	10,785	33
Cash resources	(2,175)	(9)	5,857	33
Customers' liability under acceptances	3,138	42	1,123	18
Other	2,290	11	1,489	8

As shown in Table 18, total loans excluding reverse repurchase agreements increased by 11%, with double-digit growth in residential mortgages and personal loans due to rising consumer confidence and pent-up demand. Student loans increased by 20% during the year, while car loans were up 21%. Low interest rates led to record-high housing affordability in many communities and increased the demand for residential mortgages.

In addition, sales initiatives and target marketing allowed the bank to capture a larger share of the residential mortgage and personal loan markets among all financial institutions in Canada. The market share of residential mortgages

Balance sheet and capital management (continued)

increased by 50 basis points over the last year to 14.4%, while that of personal loans grew by 130 basis points to 16.4%.

The reduction in credit cards in Table 18 on page 53 reflects the securitization of $1.5 billion of such receivables in the fourth quarter. Were it not for this securitization, credit cards would have been up by $302 million or 9%.

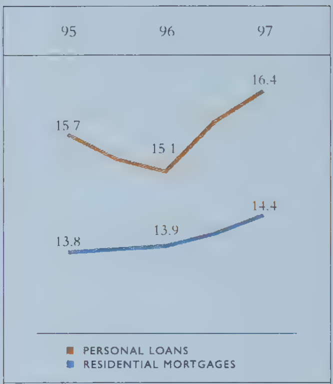
Loans to small and medium sized enterprises, including agriculture accounts, were up by 9% during the year to $13.2 billion.

Reverse repurchase agreements increased as the bank sought to capitalize on rising demand for these low-risk credit instruments.

Despite a $20 billion increase in total loans, assets only rose $13 billion as the bank reduced its holdings of securities since they yield less than loans.

OUTLOOK

➤ The bank expects reasonably good growth in loans next year as the Canadian economy is expected to remain strong. However, the rate of increase may slow from this year's pace, as much of the pent-up demand from consumers has been met.



MARKET SHARES
(% of all financial institutions in Canada)

Market shares up

Deposit growth

The mix of deposits changed during the year, reflecting an increased reliance on wholesale funding and capital initiatives.

As shown in Table 19 below, personal deposits fell by 5% during 1997, following a 1% increase in 1996.

However, deposits by businesses and governments grew far more rapidly than last year.

TABLE 19 DEPOSIT GROWTH

	1997		1996	
	($ MILLIONS)	%	($ MILLIONS)	%
Total deposits	$173,229		$161,817	
Growth over prior year	$ 11,412	7%	$ 18,326	13%
Components of growth:				
Personal	$ (4,668)	(5)	$ 845	1
Business and government	16,569	35	7,899	20
Banks	(489)	(2)	9,582	70

OUTLOOK

➤ The bank expects to manage its funding mix and offset the growth in its funding requirements by focusing on overall balance sheet management and by limiting risk-adjusted asset growth through such measures as securitization.

Balance sheet and capital management (continued)

Capital management

Managing capital effectively is an important objective at Royal Bank. In doing so, the bank balances the need for strong, competitive capital ratios and the desire to maintain its high credit ratings with the need to also provide solid returns to shareholders. In managing this balance, the bank considers expected levels of risk-adjusted assets and balance sheet assets, future investment plans and the costs and terms of existing capital issues.

To enhance shareholder value, Royal Bank repurchased 4.1 million common shares in the first half of 1997 for $198 million. Repurchases ceased when the strength of the Canadian economy and resulting rapid growth of the balance sheet put pressure on capital ratios.

The bank subsequently took steps to control growth in risk-adjusted assets to enhance its capital ratios. It obtained insurance on $6.9 billion of residential mortgages over the third and fourth quarter period, thereby reducing their risk weight for capital adequacy purposes and decreasing risk-adjusted assets by $3.4 billion. The bank also securitized $1.5 billion of credit card receivables during the fourth quarter, reducing risk-adjusted assets by the same amount.

In addition to generating $1,073 million of capital internally, up from $790 million in 1996, the bank took several other steps, detailed in Table 20 on page 56, to better manage its capital position.

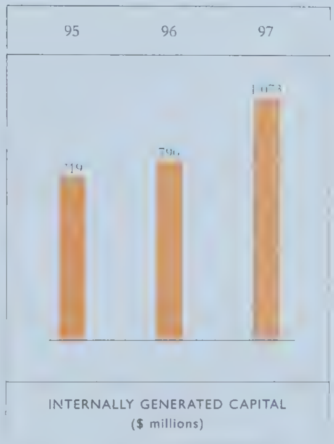
First, the bank issued $1.6 billion of debentures during 1997 and $500 million shortly after the end of the fiscal year.

Second, the bank converted the terms of the Series E preferred shares to permit their inclusion in Tier 1 capital, thereby raising the Tier 1 capital ratio at October 31, 1997 by 10 basis points.

Third, the bank exchanged into senior notes $1.0 billion of debentures which will be maturing within the next few years, and which were being amortized for regulatory capital purposes. This exchange reduced Tier 2 capital by $366 million at October 31, 1997. The replacement of these debentures by the above-mentioned $1.6 billion of longer-term debentures enhanced capital ratios.

Fourth, to benefit from opportunities in foreign markets, the bank launched a U.S. $3 billion Euro-Medium-Term Note program.

As shown on the balance sheet on page 70, total capital funds (comprising shareholders' equity and debentures) were $14.6 billion at October 31, 1997. This represents an increase of $1.6 billion or 12% as outlined on Table 21 on page 57.



Strong internal capital generation

The bank considers common equity to risk-adjusted assets as an important measure of capital strength. This ratio was 5.8% at October 31, 1997, slightly below the bank's target of 6.0%.

Regulatory capital

The primary measures of regulatory capital strength for Canadian banks are the risk-adjusted capital ratios developed pursuant to guidelines issued by the Superintendent of Financial Institutions Canada based on standards issued by the Bank for International Settlements (BIS).

Consistent with these guidelines, total regulatory capital, which differs from capital recorded on the balance sheet, is allocated into two tiers. Tier 1 capital comprises the more permanent form of capital. The components of Tier 1 and Tier 2 capital are shown in Table 22 on page 57.

Regulatory capital ratios are calculated by dividing Tier 1 and Total capital by risk-adjusted assets. Risk-adjusted assets are determined by applying risk weights to balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. The distribution of these risk

Balance sheet and capital management (continued)

weights is provided on Table 23 on page 58.

Canadian banks are required to maintain a minimum Tier 1 capital ratio of 4%, and a minimum Total capital ratio of 8%. At October 31, 1997, the bank's Tier 1 and Total capital ratios were 6.8% and 10.0% respectively, compared to 7.0% and 9.4% in 1996. The reduction in the Tier 1 capital ratio can largely be attributed to an increase in risk-adjusted assets, primarily due to loan growth, in excess of the growth in Tier 1 capital. The bank's Total capital ratio increased mainly as a result of the issuance of subordinated debentures, the inclusion of the $750 million general provision in Tier 2 capital and the growth in the bank's internally generated capital.

The Total capital ratio calculated on a pro-forma basis reflecting the issuance of $500 million of subordinated debentures on November 3, 1997 was 10.3%.

Using the U.S. definitions of Tier 1 and Tier 2 capital, the bank's Tier 1 and Total capital ratios were 6.5% and 9.9%, respectively, at October 31, 1997, compared to 6.8% and 9.5% in 1996.

Bank regulators in the United States require a deduction from Tier 1 capital for the amount of deferred tax assets that will not be realized within 1 year. The bank has calculated its capital ratios in accordance with U.S. requirements as if it were able to file consolidated tax returns, as is allowed in the United States. Accordingly, the deferred tax amount deducted from Tier 1 capital was $374 million.

TABLE 20 | CAPITAL MARKET ACTIVITY

New Issues of subordinated debentures *(1)*	
November 1996	➤ U.S. $300 million at 6.75% maturing October 24, 2011
March 1997	➤ $150 million at 6.00% maturing October 12, 2009
March 1997	➤ $350 million at 6.50% maturing September 12, 2011
June 1997	➤ $500 million at 6.75% maturing June 4, 2012
July 1997	➤ $175 million at 6.05% maturing July 7, 2009
November 1997	➤ $400 million at 5.40% maturing September 3, 2007
November 1997	➤ $100 million at 5.45% maturing September 3, 2008
Conversions	
August 1997	➤ The rights, privileges, restrictions and conditions attached to the First Preferred Shares Series E were amended to allow classification as Tier 1 capital
October 1997	➤ The holders of seven series of subordinated debentures were offered the right to exchange their holdings for an equal principal amount of senior notes of the bank. The total principal amount exchanged was $1.018 billion resulting in a decrease in Tier 2 regulatory capital of $366 million
Repurchases	
Q1 and Q2 1997	➤ The bank repurchased 4,123,200 Common Shares at a cost of $198 million
Other activity	
May 1997	➤ Filed a short form shelf prospectus with securities regulatory authorities providing for the potential issuance of up to $2 billion of subordinated indebtedness
July 1997	➤ Launched a U.S. $3 billion Euro-Medium-Term Note program for the issuance of both senior and subordinated debt instruments

(1) Further information relating to these issuances can be found in Note 10 on page 82.

Recent regulatory developments

During 1996, the BIS issued an amendment to the Capital Accord setting out a framework for calculating the capital requirements for market risk. The Superintendent of Financial Institutions Canada has issued a market risk guideline which takes effect January 1, 1998, and which encompasses the international standards agreed upon at the BIS. The market risk amendment will primarily change the calculation of risk-adjusted assets in the trading portfolios. Backtesting, which involves comparisons between model results and actual performance, will be used in conjunction with the bank's internal risk measurement systems as a basis for applying these capital charges. In addition to quantitative standards, the BIS proposal also sets out rigorous qualitative standards, to which regulators expect banks to adhere in the management of market risk.

The amendment will result in the introduction of a new tier of capital, Tier 3 capital, which will consist of subordinated debentures that are subject to certain defined conditions. In addition to the new Tier 3 capital, which will be used to satisfy the market risk requirements, Tier 1 and Tier 2 capital will also be used for market risk requirements to the extent that they are not being used to satisfy the current credit risk capital requirements. The bank does not expect a material impact on its total regulatory capital requirements as a result of these proposed amendments to the Capital Accord.

TABLE 21 | CAPITAL FORMATION

($ MILLIONS)	1997	1996	1995	1994	1993
Internally generated capital					
Net income	$1,679	$1,430	$1,262	$1,169	$300
Amounts credited (charged) to retained earnings	(6)	(78)	(8)	4	(12)
Capital from operations	1,673	1,352	1,254	1,173	288
Dividends	(600)	(562)	(535)	(532)	(518)
	1,073	790	719	641	(230)
External financing					
Subordinated debentures	625	74	47	71	304
Preferred stock	32	(238)	(276)	18	654
Common stock	(129)	(170)	–	–	–
	528	(334)	(229)	89	958
Total increase in capital	$1,601	$ 456	$ 490	$ 730	$728

TABLE 22 | CAPITAL RATIOS

($ MILLIONS)	1997	1996	1995	1994	1993
Tier 1 capital					
Common shareholders' equity	$ 8,606	$ 7,662	$ 7,042	$ 6,323	$ 5,682
Non-cumulative preferred shares	1,784	1,602	1,605	1,609	1,594
Non-controlling interest in subsidiaries	283	108	107	93	81
Less: goodwill	(600)	(335)	(333)	(365)	(447)
	10,073	9,037	8,421	7,660	6,910
Tier 2 capital					
Permanent preferred shares and subordinated debentures	423	551	788	1,063	1,050
Non-permanent subordinated debentures *(1)*	3,309	2,495	2,708	2,806	2,980
General provision	750	–	–	–	–
Non-controlling interest in subsidiaries	166	–	–	–	5
Less: substantial investments and investment in associated corporations	(16)	(14)	(4)	(4)	(4)
	4,632	3,032	3,492	3,865	4,031
Total capital *(2)*	$14,705	$12,069	$11,913	$11,525	$10,941
Risk-adjusted assets					
Balance sheet assets	$115,798	$102,856	$ 92,129	$ 93,215	$ 94,452
Off-balance sheet financial instruments	31,874	25,307	29,221	26,943	22,591
Total risk-adjusted assets	$147,672	$128,163	$121,350	$120,158	$117,043
Tier 1 capital to risk-adjusted assets	6.8%	7.0%	6.9%	6.4%	5.9%
Tier 2 capital to risk-adjusted assets	3.2%	2.4%	2.9%	3.2%	3.4%
Total capital to risk-adjusted assets *(2)*	10.0%	9.4%	9.8%	9.6%	9.3%
Common shareholders' equity to risk-adjusted assets	5.8%	6.0%	5.8%	5.3%	4.9%

(1) Subordinated debentures which are within five years of maturity are subject to straight-line amortization to zero during their remaining term and, accordingly, are included above at their amortized value.

(2) On November 3, 1997, $500 million of subordinated debentures were issued which increased Total capital to $15,205 million and Total capital to risk-adjusted assets to 10.3%.

The Superintendent of Financial Institutions Canada has approved the inclusion in Tier 2 capital, commencing October 31, 1997, of the general provision up to a limit of .625% of risk-adjusted assets, if certain conditions are met. As mentioned earlier, the bank included its $750 million general provision in Tier 2 capital at October 31, 1997. This resulted in increases in the bank's Tier 2 and Total capital ratios of 50 basis points each.

TABLE 23 RISK-ADJUSTED ASSETS

($ MILLIONS)

Balance sheet assets	Balance sheet amount	Primary risk weight	Risk-adjusted balance 1997	Risk-adjusted balance 1996
Cash resources	$ 21,392	20%	$ 4,016	$ 4,511
Securities				
Issued or guaranteed by Canadian or other OECD governments	20,078	0%	23	35
Other	12,959	100%	10,230	7,768
Residential mortgages				
Insured	26,327	0%	222	91
Conventional	26,989	50%	14,480	16,961
Other loans and acceptances				
Issued or guaranteed by Canadian or other OECD governments	12,374	0%	807	486
Other	101,138	100%	80,194	68,425
Other assets	23,517	100%	5,826	4,579
	$244,774		$115,798	$102,856

Off-balance sheet financial instruments	Contract amount	Credit-conversion factor	Credit-equivalent amount	Primary risk weight	Risk-adjusted balance 1997	Risk-adjusted balance 1996
Credit instruments						
Guarantees and standby letters of credit						
Financial	$ 9,043	100%	$ 9,043	100%	$ 8,700	$ 6,215
Non-financial	2,608	50%	1,303	100%	1,256	1,015
Securities lending	23,237	100%	23,237	0%	730	230
Documentary and commercial letters of credit	1,072	20%	214	100%	196	88
Commitments to extend credit:						
Original term to maturity of one year or less	68,705	0%	–	0%	–	–
Original term to maturity of more than one year	35,594	50%	17,797	100%	15,950	13,492
Note issuance / revolving underwriting facilities	224	50%	112	100%	112	70
Total credit instruments	$140,483		$51,706		$26,944	$21,110

Derivatives *(1)*	Notional amount	Gross positive replacement cost (2)	Credit-equivalent amount (3)	Primary risk weight	Risk-adjusted balance 1997	Risk-adjusted balance 1996
Interest rate contracts						
Forward rate agreements	$ 52,600	$ 32	$ 34	20%	$ 8	$ 20
Swaps	364,562	5,258	6,765	20%	1,793	1,957
Options purchased	24,896	238	359	20%	107	74
	442,058	5,528	7,158		1,908	2,051
Foreign exchange contracts						
Forward contracts	591,241	8,001	13,714	20%	3,668	2,710
Swaps	27,553	907	2,045	20%	458	439
Options purchased	53,262	820	1,410	20%	377	223
	672,056	9,728	17,169		4,503	3,372
Other contracts *(4)*	4,344	309	455	50%	188	215
Total derivatives	$1,118,458	15,565	24,782		$ 6,599	$ 5,638
Impact of master netting agreements		(5,056)	(6,802)		(1,669)	(1,441)
		$10,509	17,980		4,930	4,197
Total off balance-sheet financial instruments			$69,686		$ 31,874	$ 25,307
Total risk-adjusted assets					$147,672	$128,163

(1) Futures and some purchased options are traded on exchanges and are subject to daily margin requirements. Such instruments are excluded from the calculation of risk-adjusted assets as they are deemed to have no additional credit risk.

(2) Represents the total current replacement value of all outstanding contracts in a gain position.

(3) Credit-equivalent amounts for derivatives consist of (i) the total positive replacement value of all outstanding contracts, and (ii) an amount for potential future credit exposure.

(4) Comprised of precious metals, commodity and equity-linked contracts.

Risk management

Overview

Sound risk management is essential for generating consistent growth in earnings. Risk professionals work in full partnership with the bank's businesses, geographic units and functions to identify, assess and mitigate risks.

To meet the challenges of emerging market trends and to become full partners in business planning and decision making, risk management has undergone significant changes over the past several years. During 1997, Risk Management continued its reorganization by locating senior risk officers in major international geographic and business centers. The bank is committed to retaining and hiring strong risk management professionals.

The risk framework, first introduced in 1996, is the primary vehicle used in managing all risk taking activities. It classifies risks in two broad classes: (1) risks where the bank exercises direct control by formulating strategies and policies including credit, market, operating, liquidity, technology and people risks, and (2) risks where the bank exercises indirect control, such as reputation, competitive, regulatory/legislative and systemic risks.

During 1997, most business units were reviewed in accordance with this framework to gain a more in-depth understanding of the sources and effective mitigation techniques of risk. A significant development in 1997 was the development of a groupwide portfolio strategy which seeks to quantify credit, market and operating risks with a view to optimizing the risk/reward balance.

A committee structure ensures independent risk oversight. The Risk Policy Committee of the Board of Directors (the Board) reviews major risk, lending and investment policies and standards and reviews trends in portfolio quality. The Group Risk Committee reviews overall risk policies and strategies. It is chaired by the Chief Executive Officer and its members include the bank's Vice Chairmen, the Executive Vice Presidents of Risk Management and Corporate Treasury and the Executive Vice-President & Chief Financial Officer.

Reporting to the Group Risk Committee are the Risk Management Committee (RMC) and the Asset and Liability Committee (ALCO). RMC formulates policies, processes and procedures relating to credit, operating, technology and people risks, and reviews exposures and strategies for major industries and countries. ALCO oversees liquidity risk, interest rate risk and foreign exchange rate risk management. Significant RMC and ALCO policies are reviewed by the Group Risk Committee and approved by either the Audit Committee of the Board or the Risk Policy Committee of the Board.

Risk management

Credit risk management

The management of credit risk exposures is governed by a number of principles.

These include:

- effective diversification across clients, industries, terms, products and geographies
- maintenance of portfolio quality standards
- credit pricing to ensure the bank is adequately compensated for risk
- consistent measures across different businesses and products.

Consistent with these principles, the bank responded to increased losses in its portfolio in 1992 and 1993, following the last recession, by lowering industry and geographic concentrations and reducing exposures to weaker borrowers. As shown in Table 25 on page 62, the bank's real estate exposure was reduced from 4.8% in 1993 to 2.4% in 1997, and its exposure to commercial mortgages from 2.8% to 1.6%. As well, loans to the forest products sector declined from 2.5% to 1.6% during that period. Excluding short-term, fully secured credit instruments to financial institutions, no industry accounted for more than 5.2% of total loans and acceptances at the end of 1997.

The bank's loans and acceptances in Asia totalled $6.2 billion or 3.7% of total loans and acceptances in 1997. These comprised: $2.4 billion to Japan (of which close to $1 billion is maturing in early 1998), $870 million to Hong Kong, and between $550 million and $670 million each to South Korea, Australia and Taiwan. Exposures totalling $1.1 billion to other Asian countries such as China, Thailand, Indonesia, Singapore and Malaysia ranged from a low of $10 million to a high of $210 million. The bank's exposures are mostly to large, well-known corporations and financial institutions.

The bank's loans and acceptances in Latin America totalled $3.0 billion at the end of 1997. These were largely to top-tier corporations and financial institutions in Argentina, Mexico, Brazil and Chile.

Personal financial services

Personal Financial Services continues to develop new products, expand delivery channels, and capitalize on emerging technologies to meet customer needs. At the same time, the bank is experiencing strong growth in personal loans and residential mortgages. As a result, risk has become more complex, diverse and dynamic. To ensure that credit risks are appropriately mitigated, credit scoring systems and statistical methods of analyzing borrower characteristics have been further strengthened. As well, credit processes have been streamlined to further enhance customer service and performance.

Card services

A dedicated team of risk professionals was established to develop risk strategies and policies for the credit card business. This team is co-located with the business to identify opportunities to mitigate risks and to ensure that quality standards are maintained.

Business banking

All markets within business banking, including commercial, agriculture, and small/medium enterprises, have experienced strong growth nationally, and the decentralization of risk management into commercial banking centers and out of head office and geographic headquarters has proven to be very valuable. Although portfolio quality has continued to improve, Risk Management is further strengthening early warning systems and watch list processes with the assistance of training departments and business units.

Corporate and investment banking

The corporate banking client base is selected according to a strategic process focused primarily on identifying industries in which the bank intends to hold risk positions. Sectoral limits are approved by the Risk Management Committee and individual counterparty limits established based on analysis of the client's competitive position in the industry and creditworthiness. Periodic formal reviews ensures that new client opportunities are identified and that the existing customer base maintains its risk profile.

TABLE 24 EARNING ASSETS BY LOCATION OF ULTIMATE RISK (1)							
AS AT SEPTEMBER 30 ($ MILLIONS)	1997	1996	1995	1994	1993	1997	1993
Canada	$152,984	$135,629	$126,677	$123,867	$119,245	71.8%	78.7%
United States	22,046	23,083	14,651	13,961	13,757	10.3	9.1
Europe							
United Kingdom	10,289	6,738	6,287	5,896	5,826	4.8	3.8
France	3,160	2,769	1,477	1,506	1,498	1.5	1.0
Germany	2,482	3,026	2,207	1,768	1,154	1.2	.8
Switzerland	1,031	928	560	1,191	686	.5	.4
Other	3,885	3,761	2,205	2,469	2,526	1.8	1.7
	20,847	17,222	12,736	12,830	11,690	9.8	7.7
Latin America and Caribbean							
Bahamas	1,302	1,070	1,033	962	1,025	.6	.7
Brazil	1,279	1,550	1,231	1,231	1,234	.6	.8
Mexico	1,216	1,048	580	741	572	.6	.4
Argentina	1,196	821	599	442	385	.6	.3
Puerto Rico	384	326	372	385	435	.2	.3
Other	2,181	1,941	1,800	1,519	1,443	1.0	1.0
	7,558	6,756	5,615	5,280	5,094	3.6	3.5
Asia Pacific							
Japan	5,888	3,905	2,725	2,060	1,699	2.8	1.1
Other	4,974	3,670	2,593	2,216	1,589	2.3	1.0
	10,862	7,575	5,318	4,276	3,288	5.1	2.1
Country risk provision	(436)	(444)	(929)	(940)	(1,107)	(.2)	(.7)
General provision	(750)	(700)	(300)	(300)	(550)	(.4)	(.4)
Total	$213,111	$189,121	$163,768	$158,974	$151,417	100.0%	100.0%

(1) Earning assets refers to loans, securities, and deposits with other banks (including assets funded in local currencies). The location of ultimate risk is the country of origin of the borrower/issuer, or of another entity which has guaranteed performance on the exposure.

Environmental risk management

The bank's operations do not pose a significant threat to the environment.

However, as a lender, it can incur losses if a borrower cannot repay its loans due to the expense of an environmental clean-up, or if the bank becomes directly liable for a clean-up because it is deemed to have taken ownership or control of a contaminated property.

To manage such environmental risks, the bank has developed detailed environmental risk assessment criteria and management procedures, and continues to provide extensive training on their use to all account managers.

The Environmental Risk Management Group, formed in 1993, works closely with business and operating units to improve policies and practices relating to the environment.

Recognizing that the bank must conduct its own operations in compliance with environmental laws, formal review systems and procedures are in place, within real estate operations, to ensure such compliance. Efforts to conserve energy, to reduce, reuse and recycle paper and other materials, and to manage waste disposal are on-going.

Risk management (continued)

TABLE 25 LOANS AND ACCEPTANCES BY INDUSTRY AND BY LOCATION OF ULTIMATE RISK

AS AT SEPTEMBER 30 ($ MILLIONS)	1997	1996	1995	1994	1993	1997	1993
Consumer loans							
Residential mortgages	$ 52,763	$ 47,868	$ 44,881	$ 44,180	$ 42,696	31.8 %	34.7 %
Personal loans	20,534	18,090	16,551	16,455	16,219	12.4	13.2
Credit cards	3,753	3,526	3,459	3,325	3,134	2.2	2.5
	77,050	69,484	64,891	63,960	62,049	46.4	50.4
Business and government loans and acceptances							
Financial services	13,982	10,651	11,083	9,737	9,902	8.5	8.1
Energy	8,558	3,675	3,670	4,018	4,075	5.2	3.3
Small business	7,898	7,114	6,938	6,707	6,485	4.8	5.3
Information technology and media	5,655	4,066	3,202	2,875	2,936	3.4	2.4
Consumer goods	4,718	4,574	1,516	998	1,008	2.8	.8
Industrial products	4,140	3,778	2,181	2,763	2,804	2.5	2.3
Real estate	3,988	4,355	4,599	5,881	5,952	2.4	4.8
Agriculture	3,868	3,249	3,053	3,039	2,919	2.3	2.4
Transportation and environmental	3,137	2,502	2,330	2,359	2,410	1.9	2.0
Forest products	2,702	1,522	1,596	3,056	3,111	1.6	2.5
Commercial mortgages	2,669	2,289	2,135	2,191	3,459	1.6	2.8
Automotive	2,541	1,541	818	756	789	1.5	.6
Holding and investment companies	2,466	1,978	1,703	2,107	2,147	1.5	1.7
Mining and metals	2,014	913	711	1,112	1,139	1.2	.9
Other	2,638	8,994	9,586	7,464	8,526	1.6	7.0
	70,974	61,201	55,121	55,063	57,662	42.8	46.9
Assets purchased under reverse repurchase agreements	18,985	8,662	3,945	3,673	4,873	11.4	3.9
	89,959	69,863	59,066	58,736	62,535	54.2	50.8
Country risk provision (1)	(117)	(118)	(263)	(297)	(1,038)	(.1)	(.8)
General provision	(750)	(700)	(300)	(300)	(550)	(.5)	(.4)
Total	$166,142	$138,529	$123,394	$122,099	$122,996	100.0 %	100.0 %
Domestic							
Atlantic provinces	$ 7,632	$ 6,792	$ 6,557	$ 6,501	$ 6,680	4.6 %	5.4 %
Quebec	14,871	13,588	13,382	13,197	13,749	9.0	11.2
Ontario	66,497	53,204	47,426	47,103	48,293	40.0	39.2
Prairie provinces	22,104	18,078	17,144	16,278	15,685	13.3	12.8
British Columbia	22,181	18,626	18,035	17,517	16,888	13.4	13.7
	133,285	110,288	102,544	100,596	101,295	80.3	82.3
International							
Canadian risk	1,358	1,319	1,445	1,519	1,051	.8	.9
United States	13,450	13,046	8,794	9,105	10,480	8.1	8.5
Europe	7,953	5,640	5,089	4,836	5,416	4.8	4.4
Latin America and Caribbean	4,755	4,332	3,241	4,343	4,219	2.9	3.4
Asia Pacific	6,208	4,722	2,844	2,297	2,123	3.7	1.7
Country risk provision (1)	(117)	(118)	(263)	(297)	(1,038)	(.1)	(.8)
	33,607	28,941	21,150	21,803	22,251	20.2	18.1
	166,892	139,229	123,694	122,399	123,546	100.5	100.4
General provision	(750)	(700)	(300)	(300)	(550)	(.5)	(.4)
Total	$166,142	$138,529	$123,394	$122,099	$122,996	100.0 %	100.0 %

(1) The country risk provision shown has been reduced by $319 million (1996 – $326 million; 1995 – $666 million; 1994 – $643 million, 1993 – $69 million), which represents the amount deducted from securities in respect of restructured collateralized bonds of less developed countries.

Operating risk management

Operating risk is the potential for loss caused by the breakdown of information, processing, communication, settlement and legal compliance systems.

It can also result from systems or procedural failures, human error, natural disasters and criminal activity. In many cases operating risk may be created or increased when credit or market risk is mitigated. For example, credit risk may be mitigated by simple collateralization or by employing hybrid structures such as credit derivatives. These techniques require advanced technologies, highly skilled staff and efficient processes, thereby increasing exposure to operating risk.

While operating risk can never be fully eliminated, the bank endeavours to minimize it by ensuring that the appropriate infrastructure, controls, systems and people are in place. Key policies and procedures employed in managing operating risk involve segregation of duties, delegation of authorities, transaction processing, risk monitoring, and financial management and reporting. The bank also possesses back-up capabilities and performs business resumption plans to ensure ongoing service delivery under adverse conditions.

Like credit and market risks, operating risk is increasingly becoming quantifiable. A multi-disciplinary group was formed in 1996 to examine and develop appropriate operating risk measures. It has conducted a detailed analysis of relevant operating risk drivers and industry benchmarks and will continue to develop and implement a quantitative model to further enhance existing operating risk management processes.

Market risk management

Market risk is the risk of loss that results from changes in interest rates, foreign exchange rates, and equity and commodity prices.

The three main components of market risk for the bank are interest rate, foreign exchange rate and equity risk.

Interest rate risk

Interest rate risk is the potential adverse impact on the bank's earnings and economic value (previously referred to as market value) due to changes in interest rates. The key sources of interest rate risk to which the bank is exposed are repricing mismatch risk, basis risk and options risk. Repricing mismatch risk arises when there are mismatches or gaps in the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in a given period primarily resulting from customers' differing term preferences. The interest rate exposure of such gap mismatches is a function of the magnitude and direction of interest rate changes, and the size and repricing frequency of the related positions. Basis risk arises when the differentials between various indices upon which the bank prices its products change. Options risk includes both embedded interest rate options risk and outright interest rate options risk. Embedded interest rate options risk exists when a product contains a feature, commonly referred to as an embedded option, which allows customers to modify their cash flows or price transactions at guaranteed rates, such as mortgage prepayments and redeemable deposit products. Outright interest rate options are options purchased and written by the bank for use in its trading portfolio as well as those used to manage non-trading interest rate risk. Options risk arises from the effect of interest rate movements and changes in volatilities on the market value of the options within the bank's portfolios.

Foreign exchange rate risk

Foreign exchange rate risk is the potential adverse impact on the bank's earnings and economic value due to currency rate movements. The bank's trading portfolios are exposed to foreign exchange rate risk in both the spot and forward foreign exchange markets and in the options markets. Spot foreign

Risk management (continued)

Market risk management (continued)

exchange risk arises when the total present value of assets in any currency does not equal the total present value of liabilities in that currency. Unless there is a match between the level of assets, liabilities and off-balance sheet items in each currency, there is a risk that exchange rate movements will have a negative impact on net income and market value. Forward foreign exchange risk arises when, for a given currency, the maturity profile of forward purchases differs from the maturity profile of forward sales. Forward foreign exchange rates are based on foreign exchange spot rates and interest rate differentials between the respective currencies. Options risk arises from the effect of interest rate and exchange rate movements and changes in volatilities on the market value of the options within the bank's portfolios. Foreign exchange rate risk is primarily monitored and managed through a value-at-risk (VAR) methodology as discussed below under "Trading activities". The bank is also exposed to foreign exchange rate risk related to its net investment in foreign subsidiaries. The bank uses foreign exchange forwards and other derivatives to manage this risk.

Equity risk

Equity risk is the potential adverse impact on the bank's earnings and economic value due to movements in individual equity prices or general movements in the value of the stock market. The bank is engaged in buying and selling stocks as a principal in its brokerage business. In addition, the bank's trading activities include proprietary trading and providing tailored transactions for its clients. Equity risk is managed by hedging large positions, and through diversification of equity portfolios. Equity risk is quantified and monitored primarily through a VAR methodology.

Market risk measures

The bank has established risk management policies and limits within which exposure to market risk is monitored and controlled. Market risk relating to the bank's trading portfolios is managed primarily through a VAR methodology, while market risk relating to the bank's non-trading activities is monitored and managed through the use of other risk management tools, including simulation modelling and gap analysis, as discussed later under "Asset/liability management activities" on page 65.

Trading activities

Market risk associated with trading activities is a result of market-making, positioning and sales and arbitrage activities in the foreign exchange, interest rate, equity and commodity markets.

The bank's Risk Management – Trading group, which is independent of the trading function, oversees trading risks, and develops and implements comprehensive risk measures, policies and limits that are observed by each trading desk.

The group is also responsible for the daily monitoring of global trading risk exposures against actual limits using a VAR methodology, assessing global risk/return trends and alerting senior management to adverse trends or positions.

VAR is a risk measurement concept which uses statistical models to calculate within a given level of confidence the maximum loss in market value that the bank would experience within its trading portfolios from an adverse one-day movement in market rates and prices. VAR takes into account numerous variables that may cause a change in the value of portfolios, including interest rates, foreign exchange rates, equity and commodity prices, and volatilities and correlations between these variables. The bank's methodology assumes a one day holding period and a 99% confidence level which implies that actual changes in market value may exceed the VAR approximately 1% of the time. VAR is calculated daily for each major portfolio, and also on a global basis across portfolios. The global analysis combines the significant portfolios using two different correlation assumptions.

The first assumption factors in the impact of diversification within the portfolio. This calculation serves as the bank's prime measure against which market risk is monitored and is used as a basis for setting global, strategic and tactical limits.

The second assumption does not factor in the impact of diversification within the portfolio. This calculation results in a higher and more conservative measure of global VAR, and thus is used by the bank as an upper boundary of exposure against which non-diversified market risk can be evaluated. It is unlikely that the maximum loss for the bank would ever reach, much less exceed, the global VAR using the second calculation.

Table 26 shows a global VAR by major risk class of $15 million for the bank's combined trading activities as at October 31, 1997. The benefits of diversification within the bank's trading portfolios are shown separately. The level of market risk to which the bank is exposed varies continually reflecting market conditions, expectations of future price and market movements, and the composition of the bank's trading portfolios. The actual daily trading loss experienced by the bank exceeded the VAR amount, reduced for diversification impacts, on one occasion during fiscal 1997, which is consistent with statistical expectations.

Management recognizes that VAR is not an absolute measure of market risk. Hence, VAR is supplemented with operational limits which control market liquidity risks and include net position gap, term and volume limits for all products. Furthermore, a hierarchy of strategic and tactical limits overlay these operational limits to ensure diversification of risk exposure and controlled and prudent management of the trading portfolios.

Asset/liability management activities

Most banking activities, principally deposit taking and lending, expose the bank to market risk, primarily in the form of interest rate risk. The Asset/Liability Management ("ALM") group actively manages and monitors the consolidated interest rate exposure for the non-trading functions of the bank. In addition, the ALM group oversees a limited number of authorized units which manage their interest rate exposure at a decentralized level within risk and term limits established by the ALM group.

The goal of the ALM group is to achieve a balance between enhancing net interest income and reducing risk to earnings from adverse movements in interest rates. This goal is achieved by adjusting the bank's risk profile within predetermined limits and by positioning exposures taking into consideration the shape of the yield curve and expected changes in the level of interest rates.

The bank measures interest rate risk from both a current earnings and an economic value perspective. Net interest income risk measures the adverse impact on net interest income over the next twelve months from an immediate and sustained parallel movement in interest rates across all maturities. Economic value risk measures the adverse impact on the present value of both on and off-balance sheet instruments from an increase in interest rates. Economic value is the present value of all assets less the present value of all liabilities.

The primary analytical techniques used by ALM to measure and monitor interest rate risk are simulation modelling and gap analysis.

Simulation modelling enables the bank to analyse interest rate risk in a dynamic context and incorporates assumptions about pricing strategies, volume and mix of new business, changes in the level of interest rates, changes in the shape of the yield curve and other factors such as the impact of embedded options. Numerous economic and rate scenarios are used to evaluate the impact on net interest income and economic value of repricing mismatch risk, basis risk and options risk. The results of the simulation assist ALM in determining the risk/return tradeoffs of potential hedging and investment strategies.

Gap analysis is used as a complementary measure of earnings and economic value sensitivities and provides a tool for measuring exposure

TABLE 26 MARKET RISK MEASURES – TRADING ACTIVITIES

($ MILLIONS)	1997	1996
Global VAR by major risk category (1)		
Foreign exchange	$20	$10
Interest rate	12	15
Equity	10	2
Impact of diversification	(27)	(17)
Global VAR	$15	$10
Global VAR – High	$20	$21
Global VAR – Low	$ 7	$ 6

(1) Amounts are presented on a before tax basis.

Risk management (continued)

Market risk management (continued)

against limits. Gap analysis measures the difference between the amount of assets, liabilities and off-balance sheet instruments that mature or reprice in specified time periods. Risk positions are projected weekly on a centralized basis for the bank's significant domestic and foreign non-trading operations.

The bank has upgraded its existing information framework over this past year to ensure it meets best practice standards in its asset/liability management reporting and analysis.

Note 16 on page 91 shows the bank's interest rate sensitivity position as at October 31, 1997 and 1996, as prescribed by the *Canadian Institute of Chartered Accountants* Handbook section 3860, *"Financial Instruments – Disclosure and Presentation"*. On and off-balance sheet assets and liabilities are reported based on the earlier of their contractual repricing date or maturity date. Note 16 also presents effective yield information.

In managing the bank's interest rate risk, the ALM group incorporates assumptions not included in the Contractual Repricing and Maturity schedule in Note 16. These assumptions, which are continually assessed, include expected repricing of trading instruments and certain loans and deposits. Products which have neither a fixed repricing date nor a fixed rate of interest are adjusted for risk management purposes based upon an analysis of core balance behaviour and their expected term. Taking into account these assumptions on the consolidated Contractual Repricing and Maturity schedule at October 31, 1997 would result in a change in the under one year gap from ($15.5) billion to ($.5) billion.

Table 27 presents the potential adverse impact on the bank's current earnings and economic value due to changes in interest rates. These measures are based on the bank's interest rate sensitivity position at October 31, 1997 including all repricing assumptions, and are presented with and without the impact of embedded and outright options. These measures assume that no further hedging is undertaken and that all assets and liabilities reprice by the defined amounts.

The bank's domestic interest rate sensitivity position at October 31, 1997 including all repricing assumptions reflects a view on future interest rate movements relative to the current yield curve. The gap positions have been managed to recognize the moderately steep yield curve in Canada and the bank's view that short-term and medium-term interest rates may increase modestly in the near future.

The bank has established limits relating to the maximum amount of net interest income risk and economic value risk that it is willing to accept given a fixed change in interest rates.

All interest rate risk measurements described in this section are based upon the bank's interest rate exposures at a specific time. The exposures change continually as a result of the bank's day to day business activities and its risk management initiatives.

TABLE 27 MARKET RISK MEASURES – NON-TRADING ACTIVITIES

($ MILLIONS)	1997		1996	
	100 bp Increase	200 bp Increase	100 bp Increase	200 bp Increase
Economic value risk *(1)*				
Including options risk	340	665	324	635
Excluding options risk	276	536	279	547
	100 bp Decrease	200 bp Decrease	100 bp Decrease	200 bp Decrease
Net interest income risk *(1)*				
Including options risk	41	81	55	108
Excluding options risk	49	97	65	128

(1) Amounts are presented on a before tax basis and represent declines in economic value and net interest income from changes in interest rates.

Liquidity risk management

Liquidity management is designed to ensure that the bank has the ability to generate or obtain sufficient cash or its equivalents in a timely manner and on a cost effective basis to meet its commitments as they fall due.

Effective liquidity management is critical in maintaining market confidence, protecting the bank's capital and allowing for profitable business expansion.

The bank's funding environment differs significantly in its domestic and international markets. Such differences relate to characteristics of the bank's client base, the nature of the deposit market, the bank's market share and regulatory environments.

Table 28 on page 68 provides details of the bank's deposits. Deposits from Canadian consumers comprise 66% of the bank's Canadian dollar deposits, a decline from 73% in 1996 as the continued low domestic interest rate environment, combined with strong capital markets throughout the year, has resulted in a shift of consumer funds from deposit to investment products. Foreign currency activities are funded largely by deposits from corporations and large foreign banks, including central banks. Since wholesale funding accounts for a significant and increasing portion of the international funding base, the bank manages its liquidity with a view to increasing the diversification by the type and country of origin of depositors, by term, and through various locations and legal entities.

To offset lower personal deposit levels and increased loan demand during fiscal 1997, the bank broadened its funding capacity by increasing Canadian dollar and foreign currency wholesale funding and by issuing subordinated debentures and medium-term notes as outlined in Table 20 on page 56. In addition, as part of its capital management and funding processes, the bank securitized $1.5 billion of credit card receivables in fiscal 1997.

These alternative activities have strengthened the bank's domestic and foreign funding presence. Their future use will be continually assessed in light of market conditions and their impact on traditional funding sources.

A sound framework for managing liquidity also includes maintaining a sufficient level of liquid assets. As shown in Table 29 on page 68, liquid assets totalled $55.2 billion or 23% of total assets at October 31, 1997, compared to $67.9 billion or 29% of total assets at year-end 1996. Canadian dollar liquid assets are primarily marketable securities. The bank places much of its foreign currency liquid assets with highly rated foreign banks. Not included in Table 29 are reverse repurchase transactions, which the bank relies on as part of its short-term liquidity management. At October 31, 1997, reverse repurchase transactions totalled $18.6 billion, an increase of $7.2 billion from year-end 1996.

The liquid assets in Table 29 are shown before consideration of pledging activities outstanding as at October 31, 1997. In the normal course of business, the bank pledges a portion of its liquid assets primarily as collateral for various types of funding transactions, to participate in clearing and payment systems or to meet the requirements of regulators in foreign jurisdictions. At October 31, 1997, $25.5 billion of assets had been pledged as collateral primarily for obligations related to assets sold under repurchase agreements and obligations related to securities sold short. This represents a decline in pledged assets of $4.8 billion from the prior year.

The bank's management of liquidity risk is consistent with its overall risk management framework. This framework includes limits which specify the minimum level of liquid assets to be held at all times and the maximum net outflow of funds for specified time periods, in particular for key short term time horizons.

Scenario analysis is performed on the assumed behaviour of cash flows for assets and liabilities under varying conditions to assess funding requirements and is updated as needed to reflect changing conditions. Results of the analysis are used in refining limits and are provided to senior management to enable them to monitor changes in liquidity and react appropriately to market developments on a timely basis.

Contingency plans exist which would be activated to ensure funding commitments are met in the case of general market disruption or adverse economic conditions.

TABLE 28 DEPOSITS

($ MILLIONS)	1997	1996	1995	1994	1993
Canadian dollar deposits					
Personal	$ 74,873	$ 80,274	$ 79,912	$ 75,910	$ 75,965
Business and government	36,629	27,375	23,260	21,610	19,961
Banks	2,548	1,924	2,274	1,476	1,710
	114,050	109,573	105,446	98,996	97,636
Foreign currency deposits					
Personal	11,233	10,500	10,017	9,304	8,731
Business and government	27,739	20,424	16,640	14,812	13,820
Banks	20,207	21,320	11,388	12,703	10,212
	59,179	52,244	38,045	36,819	32,763
Total deposits					
Personal	86,106	90,774	89,929	85,214	84,696
Business and government	64,368	47,799	39,900	36,422	33,781
Banks	22,755	23,244	13,662	14,179	11,922
	$173,229	$161,817	$143,491	$135,815	$130,399
Personal deposits as a percentage of total deposits	50%	56%	63%	63%	65%

TABLE 29 LIQUIDITY

($ MILLIONS)	1997	1996	1995	1994	1993
Canadian dollar liquid assets					
Cash and deposits with Bank of Canada	$ 971	$ 850	$ 1,030	$ 1,023	$ 1,198
Deposits with other banks	2,864	2,300	2,228	2,657	822
Securities *(1)*	22,245	30,817	28,494	23,447	19,663
	26,080	33,967	31,752	27,127	21,683
Foreign currency liquid assets					
Cash and deposits with Bank of Canada	105	73	87	164	175
Deposits with other banks	17,452	20,344	14,365	12,605	8,679
Securities *(1)*	11,537	13,520	7,492	5,822	4,744
	29,094	33,937	21,944	18,591	13,598
Total liquid assets					
Cash and deposits with Bank of Canada	1,076	923	1,117	1,187	1,373
Deposits with other banks	20,316	22,644	16,593	15,262	9,501
Securities *(1)*	33,782	44,337	35,986	29,269	24,407
	$55,174	$67,904	$53,696	$45,718	$35,281
Liquid assets as a percentage of total assets	23%	29%	27%	26%	21%

(1) Securities include investment and trading account securities and call loans, but exclude loan substitute securities.

Management's responsibility for financial reporting

The financial statements of Royal Bank of Canada were prepared by management, which is responsible for the integrity and fairness of the data presented, including the many amounts which must of necessity be based on estimates and judgments. The financial statements were prepared in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada. Financial information appearing throughout this Annual Report is consistent with the financial statements.

In discharging its responsibility for the integrity and fairness of the financial statements and for the accounting systems from which they are derived, management maintains the necessary system of internal controls designed to ensure that transactions are authorized, assets are safeguarded and proper records maintained. These controls include quality standards in hiring and training of employees, policies and procedure manuals, a corporate code of conduct and accountability for performance within appropriate and well-defined areas of responsibility.

The system of internal controls is further supported by a compliance function, which ensures that the bank and its employees comply with securities legislation and conflict of interest rules, and by an internal audit staff, which conducts periodic audits of all aspects of the bank's operations.

The board of directors oversees management's responsibilities for financial reporting through an Audit Committee, which is composed entirely of directors who are neither officers nor employees of the bank. This Committee reviews the consolidated financial statements of the bank and recommends them to the board for approval. Other key responsibilities of the Audit Committee include reviewing the bank's existing internal control procedures and planned revisions to those procedures, and advising the directors on auditing matters and financial reporting issues. The bank's Compliance Officer and Chief Internal Auditor have full and unrestricted access to the Audit Committee.

The Superintendent of Financial Institutions Canada, at least once a year, makes such examination and enquiry into the affairs of the bank as deemed necessary to ensure that the provisions of the Bank Act, having reference to the safety of the depositors and shareholders of the bank, are being duly observed and that the bank is in a sound financial condition.

Deloitte & Touche and KPMG, independent auditors appointed by the shareholders of the bank upon the recommendation of the Audit Committee, have examined the financial statements and their report follows. The shareholders' auditors have full and unrestricted access to the Audit Committee to discuss their audit and related findings as to the integrity of the bank's financial reporting and the adequacy of the system of internal controls.

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

PETER W. CURRIE
EXECUTIVE VICE-PRESIDENT & CHIEF FINANCIAL OFFICER

Toronto, December 3, 1997

Auditors' report

To the Shareholders of Royal Bank of Canada

We have audited the consolidated balance sheet of Royal Bank of Canada as at October 31, 1997 and 1996 and the consolidated statements of income, changes in shareholders' equity and changes in financial position for the years then ended. These financial statements are the responsibility of the bank's management. Our responsibility is to express an opinion on these financial statements based on our audits.

We conducted our audits in accordance with generally accepted auditing standards. Those standards require that we plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In our opinion, these consolidated financial statements present fairly, in all material respects, the financial position of the bank as at October 31, 1997 and 1996 and the results of its operations and the changes in its financial position for the years then ended in accordance with generally accepted accounting principles, including the accounting requirements of the Superintendent of Financial Institutions Canada.

The consolidated financial statements for the year ended October 31, 1995 were audited by Deloitte & Touche and Price Waterhouse who expressed an opinion thereon without reservation in their report dated December 5, 1995.

DELOITTE & TOUCHE
KPMG
CHARTERED ACCOUNTANTS

Toronto, December 3, 1997

CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31 (IN MILLIONS OF DOLLARS)	1997	1996
ASSETS		
Cash resources		
Cash and deposits with Bank of Canada	$ 1,076	$ 923
Deposits with other banks		
Interest bearing	19,747	22,510
Non-interest bearing	569	134
	21,392	23,567
Securities *(note 4)*		
Investment account	13,475	25,357
Trading account	18,740	17,351
Loan substitute	822	782
	33,037	43,490
Loans *(note 5)*		
Residential mortgages	53,316	48,056
Personal	20,764	18,361
Credit cards	2,324	3,522
Business and government	61,221	54,406
Assets purchased under reverse repurchase agreements	18,642	11,446
	156,267	135,791
Other		
Customers' liability under acceptances	10,561	7,423
Premises and equipment *(note 6)*	1,696	1,785
Other assets *(note 7)*	21,821	19,442
	34,078	28,650
	$244,774	$231,498
LIABILITIES AND SHAREHOLDERS' EQUITY		
Deposits *(note 8)*		
Personal	$ 86,106	$ 90,774
Business and government	64,368	47,799
Banks	22,755	23,244
	173,229	161,817
Other		
Acceptances	10,561	7,423
Obligations related to securities sold short	11,152	8,331
Obligations related to assets sold under repurchase agreements	9,458	16,526
Other liabilities *(note 9)*	25,757	24,385
	56,928	56,665
Subordinated debentures *(note 10)*	4,227	3,602
Shareholders' equity		
Capital stock *(note 11)*		
Preferred	1,784	1,752
Common	2,907	2,876
Retained earnings	5,699	4,786
	10,390	9,414
	$244,774	$231,498

JOHN E. CLEGHORN
CHAIRMAN & CHIEF EXECUTIVE OFFICER

RONALD L. CLIFF
DIRECTOR

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)	1997	1996	1995
Interest income			
Loans	$ 9,951	$ 9,856	$10,057
Securities	2,347	2,430	2,154
Deposits with banks	1,009	922	817
	13,307	13,208	13,028
Interest expense			
Deposits	6,548	7,115	7,362
Subordinated debentures	384	322	335
Other	1,375	1,126	792
	8,307	8,563	8,489
Net interest income	5,000	4,645	4,539
Other income			
Capital market fees	1,172	764	434
Deposit and payment service charges	690	701	681
Trading revenues	606	368	362
Investment management and custodial fees	404	319	286
Mutual fund revenues	354	241	190
Card service revenues	332	282	278
Other	721	591	507
	4,279	3,266	2,738
Gross revenues	9,279	7,911	7,277
Provision for credit losses	380	440	580
	8,899	7,471	6,697
Non-interest expenses			
Human resources	3,365	2,851	2,563
Occupancy	559	507	473
Equipment	605	492	506
Communications	587	523	461
Other	937	739	654
	6,053	5,112	4,657
Net income before income taxes	2,846	2,359	2,040
Income taxes *(note 12)*	1,090	880	755
Net income before non-controlling interest	1,756	1,479	1,285
Non-controlling interest in net income of subsidiaries	77	49	23
Net income	$ 1,679	$ 1,430	$ 1,262
Preferred share dividends *(note 11)*	131	144	164
Net income available to common shareholders	$ 1,548	$ 1,286	$ 1,098
Average number of common shares (in thousands)	308,906	314,121	314,155
Earnings per common share (in dollars)	$5.01	$4.09	$3.49

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)	1997	1996	1995
Preferred shares			
Balance at beginning of year	$ 1,752	$1,990	$2,266
Redeemed and purchased for cancellation *(note 11)*	–	(237)	(272)
Translation adjustment on shares denominated in foreign currency	32	(1)	(4)
Balance at end of year	$ 1,784	$1,752	$1,990
Common shares			
Balance at beginning of year	$ 2,876	$2,910	$2,910
Issued *(note 11)*	69	–	–
Purchased for cancellation *(note 11)*	(38)	(34)	–
Balance at end of year	$ 2,907	$2,876	$2,910
Retained earnings			
Balance at beginning of year	$ 4,786	$4,132	$3,413
Adoption of Impaired Loans accounting standard, net of income taxes of $55 million	–	(75)	–
Balance at beginning of year, as restated	4,786	4,057	3,413
Net income	1,679	1,430	1,262
Dividends *(note 11)*	(600)	(562)	(535)
Premium paid on common shares purchased for cancellation *(note 11)*	(160)	(136)	–
Unrealized foreign currency translation gains and losses, net of hedging activities and related income taxes	(6)	(3)	(8)
Balance at end of year	$ 5,699	$4,786	$4,132
Shareholders' equity at end of year	$10,390	$9,414	$9,032

CONSOLIDATED STATEMENT OF CHANGES IN FINANCIAL POSITION

FOR THE YEAR ENDED OCTOBER 31 (IN MILLIONS OF DOLLARS)	1997	1996	1995
Cash flows from operating activities			
Net income	$ 1,679	$ 1,430	$1,262
Adjustments to determine cash flows from operating activities			
Depreciation	382	325	360
Provision for credit losses	380	440	580
Deferred income taxes *(note 12)*	229	214	391
Change in accrued interest receivable and payable	(387)	(357)	565
Increase in trading account securities	(1,389)	(4,413)	(1,840)
Other	(473)	61	12
	421	(2,300)	1,330
Cash flows from financing activities			
Increase in deposits	10,394	18,326	7,676
Issue of subordinated debentures *(note 10)*	1,576	100	200
Subordinated debentures repurchased and cancelled	–	–	(135)
Preferred shares redeemed and purchased for cancellation *(note 11)*	–	(237)	(272)
Issue of common shares *(note 11)*	69	–	–
Common shares purchased for cancellation *(note 11)*	(198)	(170)	–
Dividends *(note 11)*	(600)	(562)	(535)
Change in obligations related to assets sold with recourse or under repurchase agreements	(6,624)	12,525	(1,606)
Issue of shares by subsidiaries to non-controlling interests in consideration for the purchase of Richardson Greenshields Limited *(note 2)*	239	–	–
Other	(418)	(59)	1,215
	4,438	29,923	6,543
Cash flows from investing activities			
Increase in loans	(13,660)	(9,799)	(5,439)
Change related to assets purchased under reverse repurchase agreements	(7,196)	(6,855)	668
Increase in obligations related to securities sold short	2,821	1,203	1,559
Purchases of investment securities	(10,493)	(34,337)	(27,219)
Maturity of investment securities	20,456	17,571	6,614
Sale of investment securities	1,919	10,621	17,194
Change in non-operating deposits with other banks	2,584	(5,981)	(1,328)
Change in loan substitute securities	(40)	(120)	258
Acquisitions of premises and equipment	(293)	(240)	(255)
Consideration paid for purchase of Richardson Greenshields Limited *(note 2)*	(480)	–	–
	(4,382)	(27,937)	(7,948)
Change in cash and cash equivalents	477	(314)	(75)
Cash and cash equivalents at beginning of year	793	1,107	1,182
Cash and cash equivalents at end of year	$ 1,270	$ 793	$1,107
Cash and deposits with Bank of Canada	$ 1,076	$ 923	$1,117
Operating balances on deposit with other banks	924	668	598
Cheques and other items in transit *(note 9)*	(730)	(798)	(608)
Total	$ 1,270	$ 793	$1,107

Note 1. Significant accounting policies

Pursuant to the Bank Act, the consolidated financial statements of Royal Bank of Canada are prepared in accordance with Canadian generally accepted accounting principles ("GAAP"), including the accounting requirements of the Superintendent of Financial Institutions Canada. The preparation of financial statements in conformity with GAAP requires management to make estimates and assumptions that affect the reported amount of assets and liabilities at the date of the financial statements and income and expenses during the reporting period. Actual results could differ from those estimates. Note 19 to the consolidated financial statements describes and reconciles the differences between Canadian and United States GAAP. Certain comparative amounts have been reclassified to conform with the current year's presentation. The significant accounting policies followed in the preparation of these financial statements are summarized below.

Basis of consolidation

The consolidated financial statements include the assets and liabilities and results of operations of all subsidiaries after elimination of intercompany transactions and balances. The bank accounts for the acquisition of subsidiaries using the purchase method; any difference between the cost of the investment and the fair value of the net assets acquired is amortized over appropriate periods of up to 15 years, except where a write-down is required to reflect permanent impairment. The carrying value of goodwill is evaluated by reviewing returns of the related business, taking into account the risk associated with the investment.

The equity method is used to account for investments in associated corporations, which are corporations in which the bank holds at least a 20% interest but does not exercise control. The bank's share of earnings of these associated corporations is included in income from securities. Gains and losses realized on dispositions of investments in associated corporations are included in "Other income".

Translation of foreign currencies

Assets and liabilities denominated in foreign currencies are translated into Canadian dollars at rates prevailing on the balance sheet date; income and expenses are translated at prevailing quarter-end rates.

Unrealized foreign currency translation gains and losses (net of hedging activities and related income taxes) on investments in foreign branches, subsidiaries and associated corporations are recorded in Retained Earnings. On disposal of such investments, the accumulated net translation gain or loss is included in income. Other foreign currency translation gains and losses (net of hedging activities) are included in income.

Securities

Securities comprise investment account and trading account securities as well as loan substitute securities.

Investment account securities are purchased with the original intention to hold the securities to maturity or until market conditions render alternative investments more attractive. Equity securities are stated at cost and debt securities at amortized cost. Premiums and discounts on debt securities are amortized to interest income from securities using the yield method over the period to maturity of the related securities. Gains and losses realized on disposal of securities, which are calculated on an average cost basis, and write-downs to reflect other than temporary impairment in value are included in "Other income".

Trading account securities, which are purchased for resale over a short period of time, are stated at estimated current market value. Obligations to deliver trading securities sold but not yet purchased are recorded as liabilities and are carried at their fair values. Gains and losses realized on disposal, and unrealized valuation adjustments, are included in "Other income" in the period in which they occur. Interest income accruing on trading securities is recorded in interest income from securities. Interest expense accruing on interest-bearing securities sold short is recorded in interest expense.

Loan substitute securities are customer financings which have been structured as after-tax investments rather than conventional loans in order to provide the issuers with a borrowing rate advantage. Such securities are accorded the accounting treatment applicable to Loans.

Loans

Loans are stated net of an allowance for credit losses and unearned income, which is comprised of unearned interest and unamortized loan fees.

Loans are classified as impaired when there is no longer reasonable assurance of the timely collection of principal and interest. Whenever a payment is 90 days past due, loans other than credit card balances are automatically classified as impaired unless they are well secured and in the process of collection. Credit card balances are written off when a payment is 180 days in arrears. When a loan has been identified as impaired, the carrying amount of the loan is reduced to its estimated realizable amount, measured by discounting the expected future cash flows at the effective interest rate inherent in the loan. In subsequent periods, any increase in the carrying value of the loan is credited to the provision for credit losses. Interest received on impaired loans is credited to the carrying value of the loan. Impaired loans are returned to performing status when there is no longer any reasonable doubt regarding the timely collection of principal and interest, all amounts in arrears (including interest) have been collected and all charges for loan impairment have been reversed. Where a portion of a loan is written off and the remaining balance is restructured, the new loan is carried on an accrual basis when there is no longer any reasonable doubt regarding the collectibility of principal and interest, and payments are not 90 days past due.

Collateral is obtained if, based on an evaluation of the customer's credit-worthiness, it is considered necessary for the customer's overall borrowing facility. Collateral would normally be in the form of assets such as cash, government securities, shares, accounts receivable, inventory, or fixed assets.

Loans (continued)

Assets acquired in satisfaction of problem loans are recorded at the lesser of their fair value at the date of transfer or the carrying value of the loan. Any excess of the carrying value of the loan over the fair value of the assets acquired is written off. Operating results and gains and losses on disposal of these assets are treated as write-offs and recoveries.

Fees which relate to such activities as originating, restructuring or renegotiating loans are recognized as "Interest income" over the expected term of such loans. Where there is reasonable expectation that a loan will result, commitment and standby fees are also recognized as "Interest income" over the expected term of the resulting loan. Otherwise, such fees are recognized as "Other income" over the commitment or standby period.

Allowance for credit losses

The allowance for credit losses is maintained in an amount considered adequate to absorb estimated credit-related losses. The allowance for credit losses reflects management's best estimate of the losses existing in the credit portfolio and their judgments about economic conditions. If the circumstances under which these estimates and judgments were made change, there could be a significant change to the allowance for credit losses currently recognized. Credit losses arise primarily from loans but also relate to deposits with other banks, derivatives, loan substitute securities and other credit instruments such as acceptances, guarantees and letters of credit. The allowance is increased by provisions for credit losses which are charged to income and reduced by write-offs net of recoveries.

Specific provisions are established on an individual facility basis to recognize credit losses on business and government loans. For residential mortgages, personal loans (excluding credit card balances) and small business loans, aggregate provisions are recorded by reference to historical ratios of write-offs to balances outstanding. For credit cards, no provisions are recorded; instead, balances are written off when no payment has been received for 180 days.

A country risk provision is made in respect of aggregate exposures, entered into prior to November 1, 1995, to a number of less developed countries (LDC) based on an overall assessment of the underlying economic conditions in those countries.

A general provision is established to absorb credit losses attributable to the deterioration of credit quality on aggregate exposures for which specific provisions cannot yet be determined.

Write-offs are generally recorded after all reasonable restructuring or collection activities have taken place and there is no realistic prospect of recovery.

Assets purchased under reverse repurchase agreements and assets sold under repurchase agreements

The bank enters into short-term purchases of securities under agreements to resell (reverse repurchase agreements) and sales of securities under agreements to repurchase (repurchase agreements). These agreements are treated as collateralized lending and borrowing transactions and are carried on the balance sheet at the amounts at which the securities were initially acquired or sold. Interest earned on reverse repurchase agreements and interest incurred on repurchase agreements are reported as interest income and interest expense, respectively.

Acceptances

The potential liability under acceptances is reported as a liability in the balance sheet. The recourse against the customer in the case of a call on these commitments is reported as an offsetting asset of the same amount. Fees earned are reported in "Other income".

Premises and equipment

Premises and equipment are stated at cost less accumulated depreciation. Depreciation is recorded principally on the straight-line basis over the estimated useful lives as indicated below. Gains and losses on disposal are recorded in "Other income".

DEPRECIATION PERIODS	
BUILDINGS	25 TO 50 YEARS
COMPUTER EQUIPMENT	3 TO 10 YEARS
FURNITURE, FIXTURES AND OTHER EQUIPMENT	7 TO 10 YEARS
LEASEHOLD IMPROVEMENTS	TERM OF LEASE PLUS FIRST OPTION PERIOD

Income taxes

The tax allocation basis of accounting is followed, under which income taxes on specific transactions are recorded in the periods in which the transactions are recognized for accounting purposes, regardless of when the transactions are recognized for tax purposes. Income taxes comprise amounts applicable to income included in the Statement of Income and to items charged or credited to Retained Earnings.

Deferred income taxes accumulated as a result of timing differences are included in "Other assets". In addition, the Statement of Income contains items which are non-taxable or non-deductible for income tax purposes and, accordingly, cause the income tax provision to be different than it would be if based on statutory rates.

Derivatives

Derivatives are used in sales and trading activities to provide clients with the ability to manage their market risk exposures. Derivatives are also used to manage the bank's own exposures to interest, currency and other market risks. The most frequently used derivative products are foreign exchange forward contracts, interest rate and currency swaps, foreign currency and interest rate futures, forward rate agreements, and foreign currency and interest rate options.

When used in sales and trading activities, the realized and unrealized gains and losses on these derivatives are recognized in "Other income". Market values are determined using pricing models which incorporate current market and contractual prices of the underlying instruments, time value of money, yield curve and volatility factors. A portion of the market value is deferred within "Derivative related amounts" in "Other liabilities" and amortized to income over the life of the instruments to cover credit considerations and on-going direct

Note 1. Significant accounting policies (continued)

Derivatives (continued)

servicing costs. Unrealized gains and unrealized losses are generally reported on a gross basis as "Derivative related amounts" in "Other assets" and "Other liabilities", respectively. Unrealized gains and losses are presented on a net basis for those transactions where the bank has both a legally enforceable master netting agreement in place and intends to settle the transactions on either a net basis or simultaneously. Margin requirements and premiums paid are also included in "Derivative related amounts" in "Other assets" while premiums received are shown in "Derivative related amounts" in "Other liabilities".

When derivatives are used to manage the bank's own exposures, the revenue or expense is recognized over the life of the transaction as an adjustment to interest revenue or expense. Where derivatives have been designated and function effectively as hedges, realized gains and losses are deferred and amortized over the life of hedged assets or liabilities as adjustments to interest income or interest expense.

Postretirement Benefits

The bank maintains a defined benefit pension plan which is available to substantially all employees after two years service or at age 25, on a contributory or a non-contributory basis. The plan provides pensions based on years of service and contributions, and average earnings at retirement. Employees of subsidiaries of the bank are generally covered by separate pension plans which offer comparable benefits. It is the bank's funding policy to annually contribute to its pension funds the actuarially determined amounts needed to satisfy employee benefit laws. Investments held by the pension funds are primarily comprised of equity securities, bonds and debentures.

Actuarial valuations are performed each year to determine the present value of the accrued pension benefits, based on projections of employees' compensation levels to the time of retirement. Pension fund assets are carried at adjusted market values, with adjustments to bring the value of the assets to market value being made over a three year period.

Pension expense consists of the aggregate of (a) the actuarially computed cost of pension benefits provided in respect of the current year's service, (b) imputed interest on the funding excess or deficiency of the plan and (c) the amortization over the expected average remaining service life of employees of the funding excess existing at the date the current accounting policy commenced, experience gains and losses, and amounts arising as a result of changes in assumptions and plan amendments.

The cumulative excess of pension fund contributions over the amounts recorded as expense is reported as "prepaid pension cost" in "Other assets".

The bank also provides health and dental care benefits and life insurance coverage to employees who retire after ten years service, and to their dependents. Costs of providing these benefits are charged to income as expenditures are incurred.

Note 2. Acquisitions

Richardson Greenshields Limited

On November 1, 1996, the bank acquired all of the outstanding shares of Richardson Greenshields Limited, a Canadian investment dealer, for a total purchase consideration of $480 million. This consideration consisted of $197 million of cash and $283 million of Royal Bank DS Holding Inc. (a wholly-owned subsidiary of the bank) shares comprised of the following:

- $44 million of Class A shares, exchanged on a one-for-one basis on November 1, 1996 into 1.27 million Royal Bank of Canada common shares based on a value of $34.26 per common share as established on August 29, 1996;
- $159 million of Class B shares exchangeable, if certain conditions are met, on a one-for-one basis commencing November 1, 1998 into 4.65 million Royal Bank of Canada common shares, based upon a per share value of $34.26. The bank may effect the exchange at any time if certain conditions are met;
- $80 million of Class C shares, exchangeable into Royal Bank of Canada common shares upon the resolution of certain contingent liabilities of Richardson Greenshields Limited on or after November 1, 1998. The number of Royal Bank of Canada common shares to be issued will be determined based on the bank's average common share price during the twenty days prior to the date the exchange is made.

ACCOUNTING FOR ACQUISITION		
Fair value of assets acquired		
Cash resources and securities	$ 85	
Assets purchased under reverse repurchase agreements	1,109	
Amounts receivable from brokers, dealers, and clients	471	
Other assets	53	$1,718
Liabilities assumed		
Obligations related to securities sold short	130	
Amounts payable to brokers, dealers, and clients	771	
Other liabilities	565	1,466
Fair value of net assets acquired		252
Goodwill		228
Total purchase consideration		$ 480

The determination of purchase consideration is contingent upon the resolution of certain contingent liabilities of Richardson Greenshields Limited. In accordance with the terms of the purchase agreement, any settlement costs with respect to these contingent liabilities will be borne by the bank and will then reduce the stated value of the Royal Bank DS Holding Inc. Class C shares by an amount equivalent to the after-tax cost of the settlement (up to a maximum of $80 million). The settlement costs are not currently determinable and are not expected to exceed $80 million.

The excess of the cost of the investment over the fair value has been recorded as goodwill, and is being amortized over 15 years.

One-time restructuring costs related to the acquisition of $65 million ($37 million after-tax) have been expensed in the current year.

RBC Dominion Securities Group

On November 1, 1996, the bank acquired all RBC Dominion Securities Limited common shares held by its minority shareholders for cash and 482 thousand Royal Bank of Canada common shares. The RBC Dominion Securities Group economic entity was then formed, comprised of RBC Dominion Securities Limited (including the business of Richardson Greenshields Limited) and Royal Bank of Canada's Trading operations.

In conjunction with its formation, certain key employees of the RBC Dominion Securities Group economic entity purchased participating preferred shares of RBC Dominion Securities Limited. These shares entitle the holders to participate in 20% of profits generated by the RBC Dominion Securities Group economic entity and has increased non-controlling interest from $93 million to $153 million as at the date of acquisition.

Note 3. Results by business segment

1997	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER(1)	TOTAL
Net interest income on taxable equivalent basis	$3,972	$ 336	$ 721	$ 3	$5,032
Taxable equivalent adjustment	16	–	16	–	32
Net interest income	3,956	336	705	3	5,000
Other income	1,359	1,708	1,097	115	4,279
Gross revenues	5,315	2,044	1,802	118	9,279
Provision for credit losses	226	6	142	6	380
Non-interest expenses	3,390	1,592	1,040	31	6,053
Net income before income taxes	1,699	446	620	81	2,846
Income taxes	677	185	235	(7)	1,090
Non-controlling interest	3	20	43	11	77
Net income	$1,019	$ 241	$ 342	$ 77	$1,679

1996	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER(1)	TOTAL
Net interest income on taxable equivalent basis	$3,822	$ 405	$ 609	$(161)	$4,675
Taxable equivalent adjustment	9	–	21	–	30
Net interest income	3,813	405	588	(161)	4,645
Other income	1,189	1,058	891	128	3,266
Gross revenues	5,002	1,463	1,479	(33)	7,911
Provision for credit losses	314	11	424	(309)	440
Non-interest expenses	3,245	1,088	822	(43)	5,112
Net income before income taxes	1,443	364	233	319	2,359
Income taxes	585	144	57	94	880
Non-controlling interest	4	20	26	(1)	49
Net income	$ 854	$ 200	$ 150	$ 226	$1,430

1995	PERSONAL & COMMERCIAL BANKING	WEALTH MANAGEMENT	CORPORATE & INVESTMENT BANKING	OTHER(1)	TOTAL
Net interest income on taxable equivalent basis	$3,788	$ 407	$ 617	$(233)	$4,579
Taxable equivalent adjustment	7	–	32	1	40
Net interest income	3,781	407	585	(234)	4,539
Other income	1,184	766	747	41	2,738
Gross revenues	4,965	1,173	1,332	(193)	7,277
Provision for credit losses	452	22	85	21	580
Non-interest expenses	3,100	921	732	(96)	4,657
Net income before income taxes	1,413	230	515	(118)	2,040
Income taxes	558	89	181	(73)	755
Non-controlling interest	2	10	10	1	23
Net income	$ 853	$ 131	$ 324	$ (46)	$1,262

(1) The Other segment is comprised mainly of earnings on LDC assets, real estate operations, corporate treasury, and the systems and operations groups.

For the year ended October 31, 1997, 15% of the bank's gross revenues were from international sources (1996 – 17%; 1995 – 18%) and 28% of net income was from international sources (1996 – 51%; 1995 – 36%).

The bank considers its gross revenues and net income from domestic sources to be derived from all business transacted in Canada, regardless of the currency, with the exception of the Canadian based activities of international money market units. These units' activities, together with the bank's business carried on outside Canada, comprise gross revenues and net income from international sources.

Note 4. Securities

	Term to maturity: Under 1 year	1 to 5 years	5 to 10 years	Over 10 years	With no specific maturity	1997 Total	1996 Total
Investment account							
Canadian government debt (1)							
Carrying value	$ 5,340	$3,010	$ 70	$ 46	$ –	$ 8,466	$14,606
Estimated market value	5,364	3,161	77	57	–	8,659	14,984
Yield (2)	4.9%	7.2%	7.8%	8.0%	–	5.8%	5.8%
Securities of U.S. Treasury and other U.S. Agencies							
Carrying value	7	115	475	–	–	597	4,482
Estimated market value	7	118	479	–	–	604	4,483
Yield (2)	4.4%	6.4%	6.5%	–	–	6.5%	6.7%
Foreign OECD government debt (other than U.S.)							
Carrying value	479	397	17	–	–	893	446
Estimated market value	511	401	17	–	–	929	456
Yield (2)	7.2%	5.9%	5.7%	–	–	6.5%	6.9%
Mortgage-backed securities							
Carrying value	71	289	5	–	–	365	1,053
Estimated market value	72	305	5	–	–	382	1,102
Yield (2)	7.1%	8.1%	6.8%	–	–	7.9%	7.7%
Other debt							
Carrying value	1,221	595	754	92	–	2,662	3,987
Estimated market value	1,223	607	766	97	–	2,693	4,004
Yield (2)	4.3%	6.8%	8.6%	7.8%	–	6.2%	5.8%
Bonds of less developed countries (3)							
Carrying value	–	–	–	318	–	318	335
Estimated market value	–	–	–	492	–	492	469
Yield (2)	–	–	–	12.0%	–	12.0%	11.5%
Equities							
Carrying value	–	–	–	–	174	174	448
Estimated market value	–	–	–	–	214	214	479
Yield (2)	–	–	–	–	.4%	.4%	.4%
Total investment account securities							
Carrying value	7,118	4,406	1,321	456	174	13,475	25,357
Estimated market value	7,177	4,592	1,344	646	214	13,973	25,977
Trading account							
Canadian government debt (1)	2,197	3,184	1,283	2,696	–	9,360	10,686
Securities of U.S. Treasury and other U.S. Agencies	68	790	193	36	–	1,087	373
Foreign OECD government debt (other than U.S.)	–	96	95	55	–	246	267
Other debt	3,182	756	297	741	–	4,976	3,948
Equities	–	–	–	–	3,071	3,071	2,077
	5,447	4,826	1,868	3,528	3,071	18,740	17,351
Loan substitute (4)	48	546	167	–	61	822	782
	$12,613	$9,778	$3,356	$3,984	$3,306	$33,037	$43,490

(1) Canadian government debt is comprised of securities issued or guaranteed by Canadian federal, provincial or municipal governments.
(2) The weighted-average yield is based on the carrying value at the end of the year for the respective securities.
(3) Bonds of less developed countries are carried net of a country risk provision of $319 million (1996 – $326 million).
(4) The market value of loan substitute securities approximates carrying value.

Note 4. Securities (continued)

UNREALIZED GAINS AND LOSSES ON INVESTMENT ACCOUNT SECURITIES

	1997				1996			
	CARRYING VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE	CARRYING VALUE	GROSS UNREALIZED GAINS	GROSS UNREALIZED LOSSES	ESTIMATED MARKET VALUE
Canadian government debt	$ 8,466	$197	$ (4)	$ 8,659	$14,606	$378	$ –	$14,984
Securities of U.S. Treasury and other U.S. Agencies	597	7	–	604	4,482	5	(4)	4,483
Foreign OECD government debt (other than U.S.)	893	36	–	929	446	11	(1)	456
Mortgage-backed securities	365	17	–	382	1,053	49	–	1,102
Other debt	2,662	36	(5)	2,693	3,987	27	(10)	4,004
Bonds of less developed countries	318	174	–	492	335	134	–	469
Equities	174	42	(2)	214	448	33	(2)	479
	$13,475	$509	$(11)	$13,973	$25,357	$637	$(17)	$25,977

Note 5. Loans

IMPAIRED LOANS

					1997	1996
	GROSS	SPECIFIC PROVISIONS	GENERAL PROVISION	COUNTRY RISK PROVISION(1)	NET	NET
Residential mortgages	$ 166	$ (52)	$ –	$ –	$114	$ 123
Personal loans	153	(92)	–	–	61	40
Business and government loans *(2)*	1,500	(788)	–	(34)	678	1,061
General provision	–	–	(750)	–	(750)	(700)
	$1,819	$(932)	$(750)	$(34)	$103	$ 524

(1) The country risk provision is shown net of that portion that is in excess of impaired LDC loans in the amount of $402 million (1996 – $383 million).
(2) Business and government loans include specific provisions related to loan substitute securities of $30 million (1996 – $34 million).

ALLOWANCE FOR CREDIT LOSSES

						1997	1996
	BALANCE AT BEGINNING OF YEAR	WRITE-OFFS	RECOVERIES	PROVISION FOR CREDIT LOSSES	OTHER	BALANCE AT END OF YEAR	BALANCE AT END OF YEAR
Residential mortgages	$ 65	$ (34)	$ 9	$ 12	$ –	$ 52	$ 65
Personal loans	77	(138)	21	114	18	92	77
Credit cards	–	(98)	32	65	1	–	–
Business and government loans	1,393	(399)	79	139	12	1,224	1,393
General provision	700	–	–	50	–	750	700
	$2,235	$(669)	$141	$380	$31	$2,118	$2,235
Specific provisions *(1)*	$1,091	$(659)	$141	$330	$29	$ 932	$1,091
Country risk provision *(2)*	444	(10)	–	–	2	436	444
General provision	700	–	–	50	–	750	700
	$2,235	$(669)	$141	$380	$31	$2,118	$2,235

(1) Specific provisions include an amount of $30 million (1996 – $34 million) related to loan substitute securities.
(2) The country risk provision includes an amount of $319 million (1996 – $326 million) which has been deducted from securities in respect of restructured collateralized bonds of less developed countries.

Note 6. Premises and equipment

			1997	1996
	COST	ACCUMULATED DEPRECIATION	NET BOOK VALUE	NET BOOK VALUE
Land	$ 212	$ –	$ 212	$ 224
Buildings	1,104	406	698	711
Computer equipment	1,348	982	366	431
Furniture, fixtures and other equipment	611	402	209	225
Leasehold improvements	455	244	211	194
	$3,730	$2,034	$1,696	$1,785

Note 7. Other assets

	1997	1996
Derivative related amounts	$14,776	$12,994
Accrued interest	1,515	1,464
Assets sold with recourse	1,349	905
Deferred income taxes	874	1,103
Amounts receivable from brokers, dealers and clients	811	500
Goodwill and other intangibles	607	335
Prepaid pension cost	286	251
Other, including accounts receivable and prepaid expenses	1,603	1,890
	$21,821	$19,442

Note 8. Deposits

	PAYABLE ON DEMAND				PAYABLE AFTER NOTICE		PAYABLE ON A FIXED DATE		TOTAL	
	INTEREST BEARING		NON-INTEREST BEARING							
	1997	1996	1997	1996	1997	1996	1997	1996	1997	1996
Personal	$ 2,808	$1,935	$ 2,413	$ 1,937	$26,995	$26,585	$ 53,890	$ 60,317	$ 86,106	$ 90,774
Business and government	6,801	4,173	10,448	8,327	7,042	6,592	40,077	28,707	64,368	47,799
Banks	1,414	375	1,298	921	96	910	19,947	21,038	22,755	23,244
	$11,023	$6,483	$14,159	$11,185	$34,133	$34,087	$113,914	$110,062	$173,229	$161,817

Note 9. Other liabilities

	1997	1996
Derivative related amounts	$14,732	$13,449
Secured liabilities of subsidiaries other than deposits	2,149	2,854
Accrued interest	2,036	2,372
Obligations related to assets sold with recourse	1,349	905
Amounts payable to brokers, dealers and clients	922	569
Cheques and other items in transit	730	798
Non-controlling interest in subsidiaries	531	108
Income taxes payable	258	260
Dividends payable	144	130
Other, including accounts payable and accrued expenses	2,906	2,940
	$25,757	$24,385

Note 10. Subordinated debentures

The debentures are unsecured obligations and are subordinated in right of payment to the claims of depositors and certain other creditors. All repurchases, cancellations and exchanges of subordinated debentures are subject to the consent and approval of the Superintendent of Financial Institutions Canada.

MATURITY	RATE			DENOMINATED IN FOREIGN CURRENCY	1997	1996
Royal Bank of Canada						
June 1, 1998	10.80%	(1)		–	$ 72	$ 200
January 15, 1999	10.90%	(1)		–	99	250
October 14, 1999	10.20%	(1)		–	72	250
July 1, 2000	11.00%	(1)		–	20	200
January 31, 2001	11.75%	(1)		–	42	200
August 15, 2001	10.75%	(1)		–	28	250
January 11, 2002	11.00%			–	300	300
March 1, 2002	10.50%			–	250	250
July 29, 2005		(2)	Callable	USD 350	493	468
July 7, 2009	6.05%	(3)	Callable	–	175	–
October 12, 2009	6.00%	(4)	Callable	–	150	–
April 26, 2011	8.20%	(5)	Callable	–	100	100
September 12, 2011	6.50%	(6)	Callable	–	350	–
October 24, 2011	6.75%	(7)	Callable	USD 300	422	–
June 4, 2012	6.75%	(8)	Callable	–	500	–
November 14, 2014	10.00%			–	200	200
June 8, 2023	9.30%			–	110	110
October 1, 2083		(9)	Callable	–	250	250
June 6, 2085		(10)	Callable	USD 300	422	401
Royal Trust Corporation of Canada						
November 9, 1998		(11)		¥6,700	78	79
January 27, 1999		(12)		¥8,000	94	94
					$4,227	$3,602

(1) On October 27, 1997, the bank exchanged subordinated debentures totalling $1,018 million for an equal amount of senior notes ranking equally with deposits but otherwise, carrying the same terms and conditions.
(2) Interest at a rate of .0625% above the U.S. dollar one-month LIBOR.
(3) Interest at a rate of 6.05% until July 4, 2004 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(4) Interest at a rate of 6.0% until October 12, 2004 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(5) Interest at a rate of 8.20% until April 26, 2006 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(6) Interest at a rate of 6.5% until September 12, 2009 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(7) Interest at a rate of 6.75% until October 24, 2006 and thereafter at a rate of 1.00% above the U.S. dollar six-month LIBOR.
(8) Interest at a rate of 6.75% until June 4, 2007 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.
(9) Interest at a rate of .40% above the 30-day Bankers' Acceptance rate.
(10) Interest at a rate of .25% above the U.S. dollar three-month LIMEAN. In the event of a reduction of the annual dividend declared by the bank on its Common Shares, the interest payable on the debentures is reduced pro-rata to the dividend reduction and the interest reduction is payable with the proceeds from the sale of Common Shares.
(11) Interest at a rate of 7.7% is payable in Australian dollars.
(12) Interest at a rate of 7.5% is payable in Australian dollars.

REPAYMENT SCHEDULE		1997
The aggregate sinking fund requirements and maturities of the debentures, assuming the earliest possible dates of maturity under the terms of issue, are as follows:	Under 1 year	$ 72
	1 to 5 years	983
	5 to 10 years	493
	Over 10 years	2,679
		$4,227

Subsequent event

On November 3, 1997, the bank issued: (a) $400 million of debentures maturing September 3, 2007 and bearing interest at a rate of 5.40% until September 3, 2002 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate, and (b) $100 million of debentures maturing on September 3, 2008 and bearing interest at a rate of 5.45% until September 3, 2003 and thereafter at a rate of 1.00% above the 90-day Bankers' Acceptance rate.

Note 11. Capital stock

Authorized Capital Stock

Preferred – An unlimited number of First Preferred Shares and Second Preferred Shares without nominal or par value, issuable in series; the aggregate consideration for which all the First Preferred Shares and all the Second Preferred Shares may be issued may not exceed $5 billion in each case.

Common – An unlimited number of shares without nominal or par value provided that the aggregate consideration for which all common shares may be issued shall not exceed $10 billion.

OUTSTANDING CAPITAL STOCK	1997		1996		1995	
	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT	NUMBER OF SHARES (IN THOUSANDS)	AMOUNT
First Preferred (1)						
Cumulative Redeemable Series C (2)	–	$ –	–	$ –	1,000	$ 100
U.S.$ Cumulative Redeemable Series D (2)	–	–	–	–	1,000	135
Non-cumulative Redeemable Series E (3)	1,500	150	1,500	150	1,500	150
Non-cumulative Series F (4)	6,000	150	6,000	150	6,000	150
Non-cumulative Series G (5)	10,000	250	10,000	250	10,000	250
Non-cumulative Series H (6)	12,000	300	12,000	300	12,000	300
U.S.$ Non-cumulative Series I (7)	8,000	282	8,000	268	8,000	269
Non-cumulative Series J (8)	12,000	300	12,000	300	12,000	300
U.S.$ Non-cumulative Series K (9)	10,000	352	10,000	334	10,000	336
		1,784		1,752		1,990
Common						
Balance at beginning of year	310,529	2,876	314,155	2,910	314,155	2,910
Issued under the Executive Stock Option Plan	173	5	5	–	–	–
Issued on the acquisition of Richardson Greenshields Limited	1,274	44	–	–	–	–
Issued on the acquisition of RBC Dominion Securities Limited common shares	482	20	–	–		
Purchased for cancellation (10)	(4,123)	(38)	(3,631)	(34)		
Balance at end of year	308,335	2,907	310,529	2,876	314,155	2,910
		$4,691		$4,628		$4,900

(1) All redemption and purchase for cancellation options on preferred shares are subject to the consent of the Superintendent of Financial Institutions Canada. Series F, G, H and J are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of $25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing $25 by 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of the Series G, H and J will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing $25 by 95% of the average market price of the Common Shares at such time. Series I and K are redeemable by the bank on and after the dates specified below (i) in cash, at a price per share of U.S.$25 or (ii) by the conversion of each such share to be redeemed into that number of Common Shares determined by dividing U.S.$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time. On and after the dates specified below, subject to the right of the bank to redeem or to find substitute purchasers, each share of Series I and K will be convertible quarterly at the option of the holder into that number of Common Shares determined by dividing U.S.$25 by the U.S. dollar equivalent of 95% of the average market price of the Common Shares at such time.

(2) During 1996, the bank redeemed and purchased for cancellation the **Series C and D** at their face value.

(3) During the year, a special resolution was passed to amend the rights, privileges, restrictions and conditions attached to the **Series E.** The shareholders are entitled to receive, as and when declared, a monthly non-cumulative cash dividend which (i) floats in relation to the bank's Canadian prime rate and (ii) is adjusted upwards or downwards based on changes in market trading value. The annual dividend rate applicable to any month will in no event be less than the sum of .25% plus 55% or greater than the sum of .25% plus 75% of the average prime rate. Such shares are redeemable at a price per share of $100 and the bank may, at any time, purchase for cancellation such shares at a price per share not exceeding $100.

(4) The dividend on the **Series F** is payable quarterly at a rate equal to the greater of (i) $0.5625 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above.

(5) The dividend on the **Series G** is payable quarterly at a rate of $0.53125 per share until October 31, 1999 and, thereafter, is payable quarterly at a rate equal to the greater of (i) $0.53125 per share and (ii) 81.522% of the dividend per Common Share for the same quarter. Such shares are not redeemable by the bank prior to October 31, 1999, but thereafter are redeemable as discussed in footnote (1) above. On and after October 31, 2000, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(6) The dividend on the **Series H** is payable quarterly at a rate of $0.5625 per share. Such shares are not redeemable by the bank prior to August 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2001, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(7) The dividend on the **Series I** is payable quarterly at a rate of U.S.$0.4766 per share. Such shares are not redeemable by the bank prior to November 24, 2001, but thereafter are redeemable as discussed in footnote (1) above. On and after February 24, 2002, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(8) The dividend on the **Series J** is payable quarterly at a rate of $0.44375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

Note 11. Capital stock (continued)

(9) The dividend on the **Series K** is payable quarterly at a rate of U.S.$0.39375 per share. Such shares are not redeemable by the bank prior to May 24, 2003, but thereafter are redeemable as discussed in footnote (1) above. On and after November 24, 2003, such shares are convertible at the option of the holder into Common Shares as discussed in footnote (1) above.

(10) In September 1996, the bank announced its intention to repurchase up to 31,272,424 common shares during the 12 months ending September 25, 1997. Purchases were made in the open market at market prices through the facilities of the Toronto and Montreal stock exchanges, and in accordance with stock exchange requirements. The amount and timing of purchases were determined by the bank. Premiums that were paid to acquire the shares over and above the average carrying value were charged to retained earnings. In 1997, 4,123,200 common shares (1996 – 3,631,000 common shares) were repurchased at a cost of $198 million (1996 – $170 million), common stock outstanding being reduced by $38 million (1996 – $34 million) and retained earnings by $160 million (1996 – $136 million).

DIVIDENDS DECLARED	TOTAL			PER SHARE				
	1997	1996	1995	1997	1996	1995	1994	1993
First Preferred								
Series B	$ –	$ –	$ 14	$ –	$ –	$1.00	$1.45	$1.45
Series C	–	5	7	$ –	$4.60	$6.67	$6.67	$6.67
Series D	–	6	9	$ –	US$4.60	US$6.67	US$6.67	US$6.67
Series E	5	7	9	$3.64	$5.00	$6.43	$4.84	$4.84
Series F	14	14	14	$2.25	$2.25	$2.25	$2.25	$2.25
Series G	21	21	21	$2.13	$2.13	$2.13	$2.13	$2.13
Series H	27	27	27	$2.25	$2.25	$2.25	$2.25	$2.25
Series I	21	21	21	US$1.91	US$1.91	US$1.91	US$1.91	US$1.91
Series J	21	21	21	$1.78	$1.78	$1.78	$1.78	$1.32
Series K	22	22	21	US$1.58	US$1.58	US$1.58	US$1.58	US$1.17
	131	144	164					
Common	469	418	371	$1.52	$1.33	$1.18	$1.16	$1.16
	$600	$562	$535					

Regulatory Capital

The bank is subject to various regulatory capital requirements as defined and administered by the Superintendent of Financial Institutions Canada. The two measures of regulatory capital strength are risk-adjusted capital ratios and the assets-to-capital multiple. These calculations are based on standards issued by the Bank for International Settlements (BIS).

Risk-adjusted capital ratios are calculated by dividing Tier 1 (representing more permanent forms of capital) and Total capital by risk-adjusted assets. Risk-adjusted assets are determined by applying risk-weights to on-balance sheet assets and off-balance sheet financial instruments according to the relative credit risk of the counterparty. Banks are required to maintain a minimum Tier 1 and Total capital ratio of 4.0% and 8.0% respectively. As at October 31, 1997, the Tier 1 and Total capital ratios were 6.8% and 10.0% respectively (1996 – 7.0% and 9.4% respectively).

The assets-to-capital multiple is calculated by dividing the bank's total assets, including specified off-balance sheet financial instruments by its Total capital, as determined in the risk-adjusted capital ratio. Total assets should be no greater than 20 times Total capital. At October 31, 1997, the assets-to-capital multiple was 17.1 times (1996 – 18.8 times).

Executive Stock Option Plan

The bank offers a stock option plan for certain key employees. Under this plan, options are periodically granted to purchase common shares at prices not less than the market price of such shares immediately prior to the grant date. The options vest over a four year period and are exercisable for periods not exceeding ten years.

Of the total stock options outstanding at October 31, 1997, 2,277,650 options (728,513 exercisable) have exercise prices ranging from $28.91 to $31.35, or $31.00 on average, and a weighted average remaining contractual life of 8.7 years; 2,727,175 options (none exercisable) had exercise prices ranging from $49.60 to $65.13, or $50.09 on average, and a weighted average remaining contractual life of 10 years.

There is no compensation cost recognized for the options as the exercise price of options granted in the year is based on market prices for the common shares just prior to the grant date. The fair value of stock options granted in 1997 and 1996 is estimated using an option pricing model with the following assumptions: (i) risk-free interest rate of 6.76% (1996 – 7.24%), (ii) expected option life of 10 years, (iii) expected volatility of 18%, and (iv) expected dividends of 3.67% (1996 – 4.14%). The fair value of each option granted in 1997 and 1996 was $11.90 and $6.18, respectively.

Note 11. Capital stock (continued)

STOCK OPTIONS	1997		1996	
	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE	NUMBER OF SHARES (IN THOUSANDS)	WEIGHTED AVERAGE EXERCISE PRICE
Outstanding at beginning of year	2,476	$31.02	472	$29.58
Granted	2,775	$50.96	2,045	$31.35
Exercised	(173)	$31.16	(5)	$30.02
Cancelled	(73)	$43.34	(36)	$31.35
Outstanding at end of year	5,005	$41.40	2,476	$31.02
Exercisable at end of year	729	$30.75	166	$29.84
Available for grant	4,995		7,524	

Note 12. Income taxes

TOTAL INCOME TAXES	1997	1996	1995
Income taxes reported in the financial statements are as follows:			
In income	$1,090	$880	$755
In retained earnings			
Unrealized foreign currency translation gains and losses, net of hedging activities	(158)	12	22
Adoption of the Impaired Loans accounting standard	–	(55)	–
Total income taxes	$ 932	$837	$777
Current income taxes			
Domestic			
Federal	$ 313	$303	$246
Provincial	232	218	87
	545	521	333
Foreign	158	102	53
	703	623	386
Deferred income taxes			
Domestic			
Federal	200	206	271
Provincial	29	8	118
	229	214	389
Foreign	-	–	2
	229	214	391
Total income taxes	$ 932	$837	$777

RECONCILIATION TO STATUTORY RATE	1997		1996	1995
Income taxes in the Consolidated Statement of Income vary from the amount that would be computed by applying the composite federal and provincial statutory income tax rate of 42.9% (1996 – 42.9%; 1995 – 42.7%) for the following reasons:				
Income taxes at statutory rate	$1,221	42.9%	$1,012	$871
Increase (decrease) in income taxes resulting from:				
Lower average tax rate applicable to subsidiaries	(142)	(5.0)	(153)	(129)
Tax-exempt income from securities, primarily loan substitute securities	(9)	(.3)	(17)	(22)
Other	20	.7	38	35
	$1,090	38.3%	$ 880	$755

Note 12. Income taxes (continued)

DEFERRED INCOME TAXES	1997	1996
The tax effects of timing differences which give rise to the net deferred income tax asset reported in "Other assets" are as follows:		
Deferred income tax asset		
Allowance for credit losses	$ 319	$ 646
Tax loss carryforwards	250	139
Premises and equipment	89	48
Interest on impaired loans	75	106
Other	341	339
	1,074	1,278
Deferred income tax liability		
Pension expense	(125)	(111)
Other	(75)	(64)
	(200)	(175)
Net deferred income tax asset	$ 874	$1,103

The bank has determined that it is virtually certain that its net deferred income tax asset will be realized through a combination of future reversals of timing differences and taxable income.

Foreign earnings of certain subsidiaries would be taxed only upon their repatriation to Canada. The bank has not recognized a deferred tax liability for these undistributed earnings as management does not currently expect them to be repatriated. Taxes that would be payable if all foreign subsidiaries' accumulated unremitted earnings were repatriated are estimated at $615 million as at October 31, 1997 (1996 – $524 million).

Note 13. Postretirement benefits

FUNDED STATUS OF PENSION PLANS	1997	1996
Accumulated benefit obligation		
Vested	$2,475	$2,230
Non-vested	42	65
	2,517	2,295
Effect of future salary increases	419	368
Projected benefit obligation (1)	2,936	2,663
Pension fund assets, at adjusted market values (2)	3,418	2,952
Funding excess	482	289
Net unrecognized gains	(218)	(48)
Unrecognized transition funding excess	(2)	(8)
Other	24	18
Prepaid pension cost	$ 286	$ 251

(1) *A decrease of 150 basis points in the weighted-average discount rate and rate of future salary increases, to reflect prevailing market interest rates, would increase the projected benefit obligation to $3,359 million at October 31, 1997.*

(2) *Pension fund assets are carried at adjusted market values, where adjustments are made to bring the value of the assets to market value over a three year period. The actual market value of the assets at October 31, 1997 is $3,695 million (1996 – $3,158 million). Pension fund assets at October 31, 1997 are comprised of equity securities (56%), bonds and debentures (41%), short-term investments (2%), and other investments (1%).*

The transition funding excess and net unrecognized gains are amortized to pension expense on a straight-line basis over the expected average remaining service lives of the employees covered by the plans. Assumptions, unchanged from 1996 and 1995, used to determine the present value of the projected benefit obligation include a weighted-average discount rate of 8.0% and a weighted-average rate of future salary increases of 5.1%. The assumed weighted-average rate of return on pension fund assets is 8.0%.

PENSION EXPENSE	1997	1996	1995
Cost of benefits accrued during the year	$ 81	$ 68	$ 64
Interest expense on projected benefit obligation	205	185	171
Actual return on pension fund assets	(512)	(387)	(33)
Net amortization and deferral	281	192	(146)
Net pension expense	$ 55	$ 58	$ 56

Postretirement health and dental care and life insurance benefits expense was $9 million in 1997 (1996 – $9 million; 1995 – $8 million).

Note 14. Commitments and contingent liabilities

Financial instruments with contractual amounts representing credit risk

The primary purpose of these commitments is to ensure that funds are available to a customer as required. The bank's policy for requiring collateral security with respect to these instruments and the types of collateral security held are generally the same as for loans, as described in Note 1.

Guarantees and standby letters of credit, which represent irrevocable assurances that the bank will make payments in the event that a customer cannot meet its obligations to third parties, carry the same credit risk as loans. *Documentary and commercial letters of credit,* which are written undertakings by the bank on behalf of a customer authorizing a third party to draw drafts on the bank up to a stipulated amount under specific terms and conditions, are collateralized by the underlying shipments of goods to which they relate.

In *securities lending* transactions, the bank acts as an agent for the owner of a security, who agrees to lend the security to a borrower for a fee, under the terms of a pre-arranged contract. The borrower must fully collateralize the security loan at all times.

Commitments to extend credit represent unused portions of authorizations to extend credit in the form of loans, bankers' acceptances, guarantees or letters of credit.

FINANCIAL INSTRUMENTS WITH CONTRACTUAL AMOUNTS REPRESENTING CREDIT RISK	1997	1996
Guarantees and standby letters of credit	$ 11,651	$ 9,004
Documentary and commercial letters of credit	1,072	879
Securities lending	23,237	15,457
Commitments to extend credit		
Original term to maturity of one year or less	68,705	62,059
Original term to maturity of more than one year	35,594	28,863
Note issuance / revolving underwriting facilities	224	140
	$140,483	$116,402

Lease commitments

Minimum future rental commitments for buildings under long-term non-cancellable leases for the next five years are shown below. Annual rental commitments after 2002 are in decreasing amounts.

LEASE COMMITMENTS	
1998	$309
1999	316
2000	286
2001	236
2002	181

Building rent expense, net of property rental income, included in the Consolidated Statement of Income for the year ended October 31, 1997 was $317 million (1996 – $275 million; 1995 – $251 million).

Litigation

Various legal proceedings are pending which challenge certain practices or actions of the bank and its subsidiaries. Many of these proceedings are loan-related and are in reaction to steps taken by the bank and its subsidiaries to collect delinquent loans and enforce rights in collateral securing such loans. Management considers that the aggregate liability resulting from these proceedings will not be material.

Pledged assets

Securities with a carrying value of $23.9 billion (1996 – $29.1 billion) have been pledged as collateral for various types of funding transactions including obligations related to assets sold under repurchase agreements and obligations related to securities sold short. In addition, assets with a carrying value of $1.6 billion (1996 – $1.2 billion) have been deposited as collateral in order to participate in clearing and payment systems and depositories or to have access to the facilities of central banks in foreign jurisdictions.

Note 15. Derivative financial instruments

Derivative financial instruments are financial contracts whose value is derived from an underlying interest rate, foreign exchange rate, equity or commodity instrument or index.

Derivatives held or issued for trading purposes

Most of the bank's derivative transactions relate to sales and trading activities. Sales activities include the structuring and marketing of derivative products to customers at competitive prices to enable them to transfer, modify or reduce current or expected risks. Trading involves market-making, positioning and arbitrage activities. Market-making involves quoting bid and offer prices to other market participants with the intention of generating revenues based on spread and volume. Positioning involves managing market risk positions with the expectation of profiting from favourable movements in prices, rates or indices. Arbitrage activities involve identifying and profiting from price differentials between markets and products. The bank does not deal, to any significant extent, in leveraged derivative transactions. These transactions contain a multiplier which, for any given change in market prices, could cause the change in the transaction's fair value to be significantly different from the change in fair value that would occur for a similar derivative without the multiplier.

Derivatives held or issued for non-trading purposes

The bank also uses derivatives in connection with its own asset/liability management activities, which include hedging and investment activities.

The bank uses derivatives, in addition to securities, in its management of natural mismatch positions. Interest rate swaps are used to adjust exposure to interest rate risk by modifying the repricing or maturity characteristics of existing and/or anticipated assets and liabilities. At October 31, 1997, the level of interest rate derivatives in place to hedge anticipated transactions, and accounted for as a hedge, was not material. Purchased interest rate options are used to hedge redeemable deposits and other options embedded in consumer products. Written options are used in the bank's asset/liability management activities when specifically linked to a purchased option in the form of a collar. The amount of the bank's deferred gains and losses associated with these non-trading derivatives was not material at October 31, 1997.

Derivative product types

The bank uses the following derivative financial instruments for both trading and non-trading purposes:

Swaps are transactions in which two parties exchange cash flows on a specified notional amount for a predetermined period. For interest rate swaps, fixed and floating interest payments are exchanged based on a notional amount. Cross currency swaps involve the exchange of fixed or floating interest payments in one currency for the receipt of fixed or floating interest payments in another currency. Cross currency interest rate swaps involve the exchange of both interest and principal amounts in two different currencies.

Forwards and futures are contractual obligations to buy or sell a financial instrument on a future date at a specified price. Forward contracts are effectively tailor-made agreements that are transacted between counterparties in the over-the-counter market, whereas futures are standardized contracts that are transacted on regulated exchanges.

Options are contractual agreements under which the seller (writer) grants the purchaser the right, but not the obligation, either to buy (call option) or sell (put option) by or at a set date, a specified amount of a financial instrument at a predetermined price. The seller receives a premium from the purchaser for this right.

Derivatives – notional amounts and replacement cost

The tables below provide the notional amounts and gross positive replacement cost of the bank's derivative transactions. Notional amounts, which are off-balance sheet, serve as a point of reference for calculating payments and are a common measure of business volume. The gross replacement cost of derivatives represents the total current replacement value of all outstanding transactions in a gain position, before factoring in the impact of master netting agreements.

Derivative-related credit risk

Credit risk from derivative transactions is generated by the potential for the counterparty to default on its contractual obligations when one or more transactions have a positive market value to the bank. This market value is referred to as "replacement cost" since it is an estimate of what it would cost to replace transactions at prevailing market rates if a default occurred.

For internal risk management purposes, the credit risk arising from a derivative transaction is defined as the sum of the replacement cost plus an add-on which is an estimate of the potential change in the market value of the transaction through to maturity. The add-on is determined by statistically based models which project the expected volatility of the variable(s) underlying the derivative whether interest rate, foreign exchange rate, equity or commodity price. Both the replacement cost and the add-on are continually re-evaluated over the life of each transaction to ensure that sound credit risk valuations are used.

Netting is a technique which can reduce credit exposure from derivatives and is generally facilitated through the use of master netting agreements. The two main categories of netting are close-out netting and settlement netting. Under the close-out netting provision, if the counterparty defaults, the bank has the right to terminate all transactions covered by the master agreement at the then prevailing market values and to sum the resulting market values, offsetting negative against positive values, to arrive at a single "net" amount owed by either the counterparty or the bank. Under the settlement netting provision, all payments and receipts in the same currency and due on the same day between specified pairs of bank and counterparty units are netted, generating a single payment in each currency, due either by the bank or the counterparty unit.

Note 15. Derivative financial instruments (continued)

NOTIONAL AMOUNT OF DERIVATIVES BY TERM TO MATURITY

	TERM TO MATURITY						1997			1996	
	UNDER 3 MONTHS	3–6 MONTHS	6–12 MONTHS	1–3 YEARS	3–5 YEARS	OVER 5 YEARS (1)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Over-the-counter (OTC) contracts											
Interest rate contracts											
Forward rate agreements	$ 36,419	$ 11,494	$ 4,307	$ 380	$ –	$ –	$ 52,600	$ 51,017	$ 1,583	$ 80,957	$ 797
Swaps	40,628	40,761	58,586	127,292	57,266	40,029	364,562	321,111	43,451	328,676	26,508
Options purchased	2,373	1,759	2,683	9,036	6,000	3,045	24,896	23,656	1,240	20,398	2,349
Options written	1,910	1,605	4,844	10,485	6,216	3,242	28,302	27,176	1,126	24,215	84
Foreign exchange contracts											
Forward contracts	384,078	106,246	81,539	14,879	2,585	1,914	591,241	585,992	5,249	505,432	5,856
Cross currency swaps	243	384	501	1,270	1,013	634	4,045	3,587	458	2,219	460
Cross currency interest rate swaps	1,285	2,762	2,804	8,330	5,786	2,541	23,508	20,664	2,844	19,185	2,228
Options purchased	28,893	11,402	11,546	1,272	149	–	53,262	53,155	107	32,699	174
Options written	35,388	11,544	12,884	1,805	155	4	61,780	61,689	91	37,703	132
Other contracts (2)	1,946	1,092	1,121	650	212	–	5,021	5,021	–	9,991	–
Exchange-traded contracts											
Interest rate contracts											
Futures – long positions	9,122	5,577	5,087	5,819	969	–	26,574	25,621	953	39,352	275
Futures – short positions	2,691	4,445	4,728	2,605	98	18	14,585	14,253	332	13,040	12
Options purchased	4,726	623	845	–	–	–	6,194	6,194	–	5,587	–
Options written	5,733	1,454	1,045	–	–	–	8,232	8,232	–	7,627	–
Foreign exchange contracts											
Futures – long positions	250	–	–	–	–	–	250	250	–	–	–
Futures – short positions	112	–	–	–	–	–	112	112	–	264	–
Other contracts (2)	3,678	197	8	1	–	–	3,884	3,884	–	2,086	–
	$559,475	$201,345	$192,528	$183,824	$80,449	$51,427	$1,269,048	$1,211,614	$57,434	$1,129,431	$38,875

REPLACEMENT COST OF DERIVATIVES BY TERM TO MATURITY (3)

	TERM TO MATURITY						1997			1996	
	UNDER 3 MONTHS	3–6 MONTHS	6–12 MONTHS	1–3 YEARS	3–5 YEARS	OVER 5 YEARS (1)	TOTAL	TRADING	OTHER THAN TRADING	TRADING	OTHER THAN TRADING
Interest rate contracts											
Forward rate agreements	$ 10	$ 19	$ 2	$ 1	$ –	$ –	$ 32	$ 31	$ 1	$ 78	$ –
Swaps	382	277	326	1,656	1,108	1,509	5,258	4,658	600	5,582	433
Options purchased	3	3	6	30	35	161	238	234	4	167	14
Foreign exchange contracts											
Forward contracts	4,991	1,516	1,156	287	48	3	8,001	7,994	7	5,755	102
Cross currency swaps	2	12	23	28	19	23	107	104	3	120	21
Cross currency interest rate swaps	94	172	143	261	90	40	800	669	131	864	64
Options purchased	335	180	270	29	6	–	820	818	2	390	5
Other contracts (2)	97	45	78	74	15	–	309	309	–	120	–
Total before netting	$5,914	$2,224	$2,004	$2,366	$1,321	$1,736	$15,565	$14,817	$748	$13,076	$639
Impact of master netting agreements											
With intent to settle net or simultaneously (4)							(50)				
Without intent to settle net or simultaneously (5)							(5,006)				
							$10,509				

(1) Includes contracts maturing in over 10 years with a notional value of $4,831 million and related gross positive replacement cost of $223 million.

(2) Comprised of precious metals, commodity and equity-linked contracts.

(3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements. Exchange-traded contracts are excluded from this presentation as the credit risk associated with these instruments is minimal since they are settled in cash on a daily basis. Written options are excluded as they represent obligations of the bank and as such do not attract credit risk.

(4) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously (1996 – $82 million).

(5) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously (1996 – $4,396 million).

Note 15. Derivative financial instruments (continued)

REPLACEMENT COST OF DERIVATIVES BY RISK RATING AND BY COUNTERPARTY TYPE

AS AT OCTOBER 31, 1997	RISK RATING (1)					COUNTERPARTY TYPE(2)			
	AAA,AA	A	BBB	BB OR LOWER	TOTAL	BANKS	OECD GOVERN-MENTS	OTHER	TOTAL
Gross positive replacement cost (3)	$6,459	$6,404	$2,172	$530	$15,565	$10,829	$762	$3,974	$15,565
Impact of master netting agreements	(2,356)	(2,217)	(425)	(58)	(5,056)	(4,295)	–	(761)	(5,056)
Replacement cost (after netting agreements)	$4,103	$4,187	$1,747	$472	$10,509	$ 6,534	$762	$3,213	$10,509
Replacement cost (after netting agreements) – 1996	$3,455	$3,990	$1,314	$478	$ 9,237	$ 6,189	$798	$2,250	$ 9,237

(1) The bank's internal risk ratings for major counterparty types approximate those of public rating agencies. Ratings of AAA, AA, A and BBB represent investment grade ratings and ratings of BB and lower represent non-investment grade ratings.
(2) Counterparty type defined in accordance with the capital adequacy requirements of the Superintendent of Financial Institutions Canada.
(3) Represents the total current replacement value of all outstanding contracts in a gain position, before factoring in the impact of master netting agreements.

Derivative-related credit risk (continued)

The bank actively encourages counterparties to enter into master netting agreements. However, measurement of the bank's credit exposure arising out of derivative transactions is not reduced to reflect the effects of netting unless the enforceability of that netting is supported by appropriate legal analysis as documented in bank policy. Further development of netting policy is a key objective in the management of derivative credit risk.

To further manage derivative related counterparty credit exposure, the bank enters into agreements containing mark-to-market cap provisions with some counterparties. Under such provisions, the bank has the right to request that the counterparty pay down or collateralize the current market value of its derivatives position with the bank. The use of collateral does not currently represent a significant credit mitigation technique for the bank in managing derivative related credit risk and thus the amount of collateral held at October 31, 1997 is not material.

The bank subjects its derivative-related credit risks to the same credit approval, limit and monitoring standards that it uses for managing other transactions that create credit exposure. This includes evaluation of counterparties as to credit-worthiness, and managing the size, diversification and maturity structure of the portfolio. Credit utilization for all products is compared with established limits on a continual basis and is subject to a standard exception reporting process. The bank utilizes a single internal rating system for all credit risk exposure. In most cases, these internal ratings approximate the external risk ratings of public rating agencies. The above table shows replacement cost, both before and after the impact of netting, of the bank's derivatives by risk rating and by counterparty type. During 1997 and 1996, neither the bank's actual credit losses arising from derivative transactions nor the level of impaired derivative contracts were significant.

Note 16. Contractual repricing and maturity schedule

The table below details the bank's exposure to interest rate risk as defined and prescribed by the *Canadian Institute of Chartered Accountants* handbook section 3860, *"Financial Instruments – Disclosure and Presentation"*. On and off-balance sheet financial instruments are reported based on the earlier of their contractual repricing date or maturity date. Effective interest rates have been disclosed where applicable. The effective rates shown represent historical rates for fixed rate instruments carried at amortized cost and current market rates for floating rate instruments or instruments carried at fair value.

The table below does not incorporate management's expectation of future events where expected repricing or maturity dates differ significantly from the contractual dates. The bank incorporates these assumptions in the management of its interest rate risk exposure. These assumptions include expected repricing of trading instruments and certain loans and deposits. Taking into account these assumptions on the consolidated Contractual Repricing and Maturity schedule at October 31, 1997 would result in a change in the under one year gap from ($15.5) billion to ($.5) billion.

CARRYING AMOUNT BY EARLIER OF CONTRACTUAL REPRICING OR MATURITY DATE

AS AT OCTOBER 31, 1997	IMMEDIATELY RATE SENSITIVE	UNDER 3 MONTHS	3 TO 6 MONTHS	6 TO 12 MONTHS	1 TO 5 YEARS	OVER 5 YEARS	NON-INTEREST SENSITIVE	TOTAL
Assets								
Cash resources	$ –	$ 16,046	$ 1,605	$ 2,540	$ 123	$ –	$ 1,078	$ 21,392
Effective interest rate		5.2%	6.0%	6.0%	6.2%			
Securities								
Investment account & loan substitute	–	2,678	3,564	1,825	4,274	1,956	–	14,297
Effective interest rate		5.0%	5.2%	5.2%	7.0%	9.3%		
Trading account	–	4,212	350	809	5,076	5,012	3,281	18,740
Effective interest rate		4.6%	4.3%	4.5%	5.3%	5.9%		
Loans	33,977	55,813	12,088	9,976	42,935	1,375	103	156,267
Effective interest rate		5.3%	5.0%	7.0%	7.9%	7.6%		
Other assets	–	–	–	–	–	–	34,078	34,078
	33,977	78,749	17,607	15,150	52,408	8,343	38,540	244,774
Liabilities								
Deposits	52,000	66,460	13,683	20,827	20,014	245	–	173,229
Effective interest rate		3.6%	4.7%	4.5%	6.3%	5.8%		
Obligations related to assets sold under repurchase agreements	–	9,458	–	–	–	–	–	9,458
Effective interest rate		3.5%						
Obligations related to securities sold short	–	799	970	234	3,304	3,879	1,966	11,152
Effective interest rate		3.4%	3.8%	4.0%	3.8%	5.6%		
Other liabilities	–	–	–	–	–	–	36,318	36,318
Subordinated debentures	–	1,165	–	72	983	2,007	–	4,227
Effective interest rate		8.0%		10.8%	10.2%	7.1%		
Shareholders' equity	150	–	–	–	982	652	8,606	10,390
Effective interest rate					8.6%	6.7%		
	52,150	77,882	14,653	21,133	25,283	6,783	46,890	244,774
On-balance sheet gap	(18,173)	867	2,954	(5,983)	27,125	1,560	(8,350)	–
Off-balance sheet financial instruments *(1)*								
Derivatives used for asset liability management purposes								
Total pay side swaps	–	(12,846)	(2,694)	(333)	(5,955)	(653)	–	(22,481)
Effective interest rate		4.0%	7.6%	7.0%	6.1%	8.1%		
Total receive side swaps	–	11,119	2,370	2,682	4,433	1,877	–	22,481
Effective interest rate		3.9%	4.6%	5.8%	6.7%	7.0%		
Derivatives used for trading purposes	–	3,208	467	881	(1,085)	(1,339)	(2,132)	–
Effective interest rate		2.6%	5.8%	10.8%	5.6%	6.0%		–
	–	1,481	143	3,230	(2,607)	(115)	(2,132)	–
Total gap	$(18,173)	$ 2,348	$ 3,097	$ (2,753)	$24,518	$ 1,445	$(10,482)	$ –
Canadian dollar	(13,185)	(2,386)	2,595	(2,641)	22,793	2,551	(9,718)	9
Foreign currency	(4,988)	4,734	502	(112)	1,725	(1,106)	(764)	(9)
Total gap	$(18,173)	$ 2,348	$ 3,097	$ (2,753)	$24,518	$ 1,445	$(10,482)	$ –
Canadian dollar – 1996	(12,191)	(5,149)	1,225	(3,200)	22,909	2,472	(3,469)	2,597
Foreign currency – 1996	(615)	1,774	1,008	(1,533)	(1,455)	1,584	(3,360)	(2,597)
Total gap – 1996	$(12,806)	$ (3,375)	$ 2,233	$ (4,733)	$21,454	$ 4,056	$ (6,829)	$ –

(1) Represents net notional amounts.

Note 17. Concentrations of credit risk

Concentrations of credit risk exist if a number of clients are engaged in similar activities, or are located in the same geographic region or have comparable economic characteristics such that their ability to meet contractual obligations would be similarly affected by changes in economic, political or other conditions. Concentrations of credit risk indicate the relative sensitivity of the bank's performance to developments affecting a particular industry or geographic location. Management does not believe that the concentrations described below are unusual.

On-balance sheet assets

Of the $213 billion in total earning assets as at September 30, 1997, 72% relate to the Canadian market and 10% relate to the United States market. No other country accounts for more than 5% of total earning assets.

Of the $166 billion in total loans and acceptances as at September 30, 1997, 80% are to borrowers located in Canada, with the largest provincial concentrations being Ontario (40%) and British Columbia (13%). No industry accounts for more than 9% of total loans and acceptances.

Off-balance sheet financial instruments

Financial instruments with contractual amounts representing credit risk

Of the $140 billion in off-balance sheet financial instruments with contractual amounts representing credit risk as at October 31, 1997, approximately 52% relate to Canada, 27% to the United States and 14% to Europe.

Included in the $140 billion of these credit instruments are commitments to extend credit totalling $104 billion, of which 45% relate to Canada, 31% relate to the United States and 18% relate to Europe. Of the commitments to extend credit, the largest industry concentrations relate to financial institutions (22%), mining and energy (18%), manufacturing (17%) and transportation (13%). No other industry sector exceeds 10% of the total.

Derivatives

Credit risk represents the current replacement value of all outstanding over-the-counter derivative contracts in a gain position without factoring in the impact of master netting agreements or the value of any collateral. Credit risk totalled $15.6 billion and $13.7 billion as at October 31, 1997 and 1996 respectively. Based on the location of the ultimate counterparty, 43% of this credit risk amount relates to Europe, 21% to the United States, 19% to Canada and 15% to Asia Pacific.

The largest concentration by counterparty type of this credit risk exposure is with banks (69% of the total).

Note 18. Fair value of financial instruments

The estimated fair values are designed to approximate values at which these instruments could be exchanged in a current transaction between willing parties. However, many of the financial instruments lack an available trading market and therefore, fair values are based on estimates using net present value and other valuation techniques which are significantly affected by the assumptions used concerning the amount and timing of estimated future cash flows and discount rates which reflect varying degrees of risk.

Also, the estimated fair values disclosed do not reflect the value of assets and liabilities that are not considered financial instruments such as "premises and equipment". In addition, the values of other non-financial assets and liabilities, such as intangible values of customer relationships and leases, have been excluded. Furthermore, due to the use of subjective judgment and uncertainties, the aggregate fair value amounts should not be interpreted as being realizable in an immediate settlement of the instruments.

FINANCIAL INSTRUMENTS

	1997			1996		
	BOOK VALUE	FAIR VALUE	DIFFERENCE	BOOK DIFFERENCE	FAIR VALUE	DIFFERENCE
Financial assets						
Cash resources (1)	$ 21,392	$ 21,392	$ –	$ 23,567	$ 23,567	$ –
Securities (2)	33,037	33,535	498	43,490	44,110	620
Loans (3)	156,267	157,534	1,267	135,791	137,087	1,296
Customers' liability under acceptances (1)	10,561	10,561	–	7,423	7,423	–
Other assets (4)	20,054	19,997	(57)	17,753	17,761	8
Financial liabilities						
Deposits (5)	$173,229	$174,462	$(1,233)	$161,817	$163,350	$(1,533)
Acceptances (1)	10,561	10,561	–	7,423	7,423	–
Obligations related to assets sold under repurchase agreements (1)	9,458	9,458	–	16,526	16,526	–
Obligations related to securities sold short (1)	11,152	11,152	–	8,331	8,331	–
Other liabilities (4)	25,226	25,226	–	24,277	24,277	–
Subordinated debentures (6)	4,227	4,478	(251)	3,602	3,935	(333)
Fair value in excess of book value			$ 224			$ 58

(1) Due to their short-term maturity, the carrying values of certain on-balance sheet financial instruments are assumed to approximate their fair values.

(2) The estimated fair values of securities are provided in Note 4 to the financial statements. These are based on quoted market prices, when available. If quoted market prices are not available, fair values are estimated using quoted market prices of similar securities.

(3) For certain variable rate loans that reprice frequently, fair values are assumed to be equal to the carrying values. The fair values of other loans are estimated through a discounted cash flow calculation that applies market interest rates currently charged for similar new loans to expected maturity amounts (adjusted for prepayments where appropriate).

(4) The carrying values of Other assets and Other liabilities approximate their fair values with the exception of derivative financial instruments held or issued for other than trading purposes. The net fair value over book value for these instruments is shown in Other assets. Gross fair value information pertaining to all derivative financial instruments is shown below.

(5) The fair values of deposits with no stated maturity are assumed to be equal to their carrying values. The estimated fair values of fixed rate deposits are determined by discounting the expected cash flows, using market interest rates currently offered for deposits of similar remaining maturities (adjusted for early redemptions where appropriate).

(6) The fair values of the bank's debentures are based on quoted market prices for similar issues, or current rates offered to the bank for debt of the same remaining maturity.

Note 18. Fair value of financial instruments (continued)

DERIVATIVE FINANCIAL INSTRUMENTS (1)	1997				1996	
	AVERAGE FAIR VALUE FOR THE YEAR ENDED (2)		PERIOD END FAIR VALUE		PERIOD END FAIR VALUE	
	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE	POSITIVE	NEGATIVE
Held or issued for trading purposes						
Interest rate contracts						
Forward rate agreements	$ 42	$ 47	$ 31	$ 27	$ 78	$ 85
Swaps	4,854	4,901	4,658	4,792	5,582	5,547
Options purchased	185	–	234	–	167	–
Options written	–	147	–	143	–	149
	5,081	5,095	4,923	4,962	5,827	5,781
Foreign exchange contracts						
Forward contracts	7,630	8,010	7,994	7,800	5,755	6,661
Cross currency swaps	115	108	104	105	120	89
Cross currency interest rate swaps	794	535	669	766	864	390
Options purchased	696	–	818	–	390	–
Options written	–	660	–	709	–	445
	9,235	9,313	9,585	9,380	7,129	7,585
Other contracts	196	281	309	381	120	165
	$14,512	$14,689	$14,817	$14,723	$13,076	$13,531
Held or issued for other than trading purposes						
Interest rate contracts						
Forward rate agreements			$ 1	$ 1	$ –	$ 1
Swaps			600	470	433	558
Options purchased			4	–	14	–
Options written			–	23	–	5
			605	494	447	564
Foreign exchange contracts						
Forward contracts			7	148	102	40
Cross currency swaps			3	1	21	–
Cross currency interest rate swaps			131	28	64	73
Options purchased			2	–	5	–
Options written			–	2	–	2
			143	179	192	115
			$ 748	$ 673	$ 639	$ 679
Total gross fair values before netting			$15,565	$15,396	$13,715	$14,210
Impact of master netting agreements:						
With intent to settle net or simultaneously *(3)*			(50)	(50)	(82)	(82)
Without intent to settle net or simultaneously *(4)*			(5,006)	(5,006)	(4,396)	(4,396)
Total			$10,509	$10,340	$ 9,237	$ 9,732

(1) The fair values of derivatives are presented on a gross basis before the impact of legally enforceable master netting agreements. The fair values of derivatives are determined using various methodologies including: quoted market prices, where available; prevailing market rates for instruments with similar characteristics and maturities; net present value analysis or other pricing models as appropriate.

(2) Average fair value amounts are calculated based on monthly balances.

(3) Impact of offsetting credit exposures on contracts where the bank has both a legally enforceable master netting agreement in place and intends to settle the contracts on either a net basis or simultaneously.

(4) Additional impact of offsetting credit exposures on contracts where the bank has a legally enforceable master netting agreement in place but does not intend to settle the contracts on a net basis or simultaneously.

Note 19. Reconciliation of Canadian and United States generally accepted accounting principles

The consolidated financial statements of the bank are prepared in accordance with Canadian generally accepted accounting principles (GAAP), including the accounting requirements of the Superintendent of Financial Institutions Canada. As required by the United States Securities and Exchange Commission, material differences between Canadian and United States GAAP are described below:

RECONCILIATION TO U.S. GAAP	1997		1996		1995	
	NET INCOME	SHAREHOLDERS' EQUITY	NET INCOME	SHAREHOLDERS' EQUITY	NET INCOME	SHAREHOLDERS' EQUITY
Canadian GAAP	$1,679	$10,390	$1,430	$9,414	$1,262	$9,032
Reclassification of securities (1)	–	283	–	349	–	126
Post-retirement benefits (2)	(31)	(58)	(27)	(27)	–	–
Restructuring costs (3)	34	34	–	–	–	–
Impaired loans	–	–	(75)	–	–	–
Other (4)	(28)	(14)	2	14	(5)	12
U.S. GAAP	$1,654	$10,635	$1,330	$9,750	$1,257	$9,170

Had the bank reported in accordance with United States GAAP earnings per share would have been reported as $4.92 (1996 – $3.78, 1995 – $3.48).

(1) Under Statement of Financial Accounting Standards (SFAS) No. 115 "Accounting for Certain Investments in Debt and Equity Securities", investments in equity securities that have readily determinable fair values and all investments in debt securities must be classified according to one of the following three categories:

1. *Held to Maturity:* Securities that the bank has the positive intent and ability to hold to maturity are reported at amortized cost.
2. *Trading Securities:* Securities that are bought and held principally for resale in the near term are reported at fair value, with unrealized gains and losses included in earnings.
3. *Available for Sale:* Securities not classified as either held to maturity or trading are classified as available for sale and are reported at fair value, with unrealized gains and losses excluded from earnings and reported as a separate component of shareholders' equity.

Under Canadian GAAP, the bank classifies securities held as either investment account or trading account securities. Investment account securities are carried at amortized cost and trading account securities are recorded at estimated current market value. For United States reporting purposes, primarily all investment account securities would be classified as *"Available for Sale"* and reported at estimated fair value.

Had the bank reported its investment account securities in accordance with United States GAAP, securities would have increased by $495 million (1996 – $611 million) and deferred income taxes (included in "Other Assets") would have decreased by $212 million (1996 – $262 million). The after-tax net unrealized gain of $283 million (1996 – $349 million; 1995 – $126 million) would have been reported as a separate component of shareholders' equity. Gross realized gains and losses from disposal of available for sale securities were $61 million and $24 million, respectively for the year ended October 31, 1997 (1996 – $153 million and $81 million, respectively; 1995 – $109 million and $92 million, respectively).

(2) Under SFAS No. 106, "Employers' Accounting for Postretirement Benefits Other Than Pensions" which became effective in the year commencing November 1, 1996 for United States reporting purposes, the bank is required to accrue the costs of postretirement benefits other than pensions over the working lives of employees in a manner similar to pension costs. These benefits are primarily comprised of life insurance, dental care and supplementary health care coverage (in excess of coverage provided under the Canadian health insurance system). Under Canadian GAAP, these costs are charged to income as incurred.

Had the bank accrued for the annual cost of providing postretirement benefits other than pensions in excess of the expenditures already recognized under Canadian GAAP, net income for the year ended October 31, 1997 would have decreased by $31 million (1996 – $27 million), deferred income taxes (included in "Other Assets") would have increased by $45 million (1996 – $21 million), and other liabilities would have increased by $103 million (1996 – $48 million). Both years include the impact of the amortization, over an 18 year period, of the actuarially-determined transitional obligation of $303 million.

(3) Under Emerging Issues Task Force 95-3, "Recognition of Liabilities in Connection with a Purchase Business Combination", restructuring costs, including those incurred to exit an activity of an acquired company, are recognized as liabilities assumed in a purchase business combination and included in the allocation of the acquisition cost. Under Canadian GAAP, the bank has opted to charge these costs to income as incurred.

Had the bank accounted for the restructuring costs associated with the acquisition of Richardson Greenshields Limited in accordance with U.S. GAAP, net income would have increased by $34 million, goodwill would have increased by $61 million, and deferred income taxes (Included in "Other Assets") would have decreased by $27 million.

(4) Includes other minor differences between Canadian and U.S. GAAP net income and shareholders' equity as well as the cumulative adjustment to shareholders' equity arising from previous years' GAAP differences.

Consolidated Statement of Changes in Financial Position

There are no material differences between the Consolidated Statement of Changes in Financial Position as reported under Canadian GAAP for the years ended October 31, 1997, 1996, and 1995 as would be reported under United States GAAP, except for the disclosure of supplementary information relating to interest paid in cash in 1997 of $8.6 billion (1996 – $8.7 billion; 1995 – $7.3 billion) and income taxes paid in cash of $845 million in 1997 (1996 – $429 million; 1995 – $318 million).

CONSOLIDATED BALANCE SHEET

AS AT OCTOBER 31 ($ MILLIONS)	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Assets											
Cash resources	$ 21,392	$ 23,567	$ 17,710	$ 16,449	$ 10,874	$ 10,938	$ 8,820	$ 8,763	$ 8,187	$ 10,093	$ 13,810
Securities	33,037	43,490	32,705	27,695	24,011	16,146	13,436	9,449	7,989	8,872	8,586
Loans											
Residential mortgages	53,316	48,056	45,088	44,086	43,738	32,607	29,103	25,733	22,530	19,502	16,184
Personal	20,764	18,361	16,833	16,437	16,418	15,396	14,728	14,392	13,504	12,376	10,215
Credit cards	2,324	3,522	3,435	3,321	3,090	2,532	2,562	2,434	2,108	1,811	1,529
Business and government	61,221	54,406	49,630	46,283	47,919	48,995	51,351	50,135	45,097	44,092	41,365
Reverse repurchase agreements	18,642	11,446	4,591	5,259	5,304	607	600	–	–	–	–
	156,267	135,791	119,577	115,386	116,469	100,137	98,344	92,694	83,239	77,781	69,293
Acceptances	10,561	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226
Premises and equipment	1,696	1,785	1,870	1,975	2,057	1,914	1,921	1,800	1,509	1,335	1,253
Other assets *(1)*	21,821	19,442	17,868	5,369	5,228	3,421	2,621	2,863	3,035	2,434	2,002
	$244,774	$231,498	$196,030	$173,079	$164,941	$138,293	$132,352	$125,938	$114,660	$110,054	$102,170
Liabilities and shareholders' equity											
Deposits											
Personal	$ 86,106	$ 90,774	$ 89,929	$ 85,214	$ 84,696	$ 67,648	$ 64,332	$ 60,577	$ 53,851	$ 46,701	$ 42,530
Business and government	64,368	47,799	39,900	36,422	33,781	30,245	29,740	27,335	25,242	27,924	28,021
Banks	22,755	23,244	13,662	14,179	11,922	14,329	10,950	11,256	10,093	12,613	15,260
	173,229	161,817	143,491	135,815	130,399	112,222	105,022	99,168	89,186	87,238	85,811
Acceptances	10,561	7,423	6,300	6,205	6,302	5,737	7,210	10,369	10,701	9,539	7,226
Repurchase agreements	9,458	16,526	4,090	5,341	2,533	787	641	29	299	188	49
Securities sold short	11,152	8,331	7,128	5,569	5,362	3,628	2,650	1,523	989	620	55
Other liabilities *(1)*	25,757	24,385	22,461	8,079	9,005	5,307	5,986	6,096	5,584	5,382	3,144
Subordinated debentures	4,227	3,602	3,528	3,481	3,410	3,106	3,081	2,299	2,118	2,000	1,521
	234,384	222,084	186,998	164,490	157,011	130,787	124,590	119,484	108,877	104,967	97,806
Shareholders' equity											
Capital stock											
Preferred	1,784	1,752	1,990	2,266	2,248	1,594	1,661	1,146	1,151	954	1,012
Common	2,907	2,876	2,910	2,910	2,910	2,910	2,726	2,450	2,309	1,961	1,545
Retained earnings	5,699	4,786	4,132	3,413	2,772	3,002	3,375	2,858	2,323	2,172	1,807
	10,390	9,414	9,032	8,589	7,930	7,506	7,762	6,454	5,783	5,087	4,364
	$244,774	$231,498	$196,030	$173,079	$164,941	$138,293	$132,352	$125,938	$114,660	$110,054	$102,170

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative related amounts on a gross basis.

CONSOLIDATED STATEMENT OF INCOME

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Interest income											
Loans	$ 9,951	$ 9,856	$10,057	$ 8,899	$8,247	$ 8,957	$10,670	$11,238	$10,045	$7,915	$6,769
Securities	2,347	2,430	2,154	1,629	1,295	1,012	896	1,063	909	657	785
Deposits with banks	1,009	922	817	479	321	421	613	666	676	704	881
	13,307	13,208	13,028	11,007	9,863	10,390	12,179	12,967	11,630	9,276	8,435
Interest expense											
Deposits	6,548	7,115	7,362	5,477	4,995	5,868	7,940	9,081	7,789	5,871	5,304
Subordinated debentures	384	322	335	290	263	272	271	220	206	142	136
Other	1,375	1,126	792	761	567	322	209	145	108	31	42
	8,307	8,563	8,489	6,528	5,825	6,462	8,420	9,446	8,103	6,044	5,482
Net interest income	5,000	4,645	4,539	4,479	4,038	3,928	3,759	3,521	3,527	3,232	2,953
Other income	4,279	3,266	2,738	2,863	2,451	2,102	1,958	1,744	1,657	1,341	1,082
Gross revenues	9,279	7,911	7,277	7,342	6,489	6,030	5,717	5,265	5,184	4,573	4,035
Provision for credit losses	380	440	580	820	1,750	2,050	605	420	1,380	750	900
	8,899	7,471	6,697	6,522	4,739	3,980	5,112	4,845	3,804	3,823	3,135
Non-interest expenses											
Human resources	3,365	2,851	2,563	2,675	2,310	2,160	2,072	1,889	1,706	1,467	1,327
Occupancy	559	507	473	500	444	429	394	334	302	284	248
Equipment	605	492	506	460	396	377	335	287	238	204	181
Communications	587	523	461	450	377	372	372	362	321	266	227
Restructuring	–	–	–	–	410	130	–	–	–	–	–
Other	937	739	654	576	478	449	445	444	389	351	364
	6,053	5,112	4,657	4,661	4,415	3,917	3,618	3,316	2,956	2,572	2,347
Net income before income taxes	2,846	2,359	2,040	1,861	324	63	1,494	1,529	848	1,251	788
Income taxes	1,090	880	755	655	(5)	(65)	495	555	305	530	273
Net income before non-controlling interest	1,756	1,479	1,285	1,206	329	128	999	974	543	721	515
Non-controlling interest in net income of subsidiaries	77	49	23	37	29	21	16	9	14	9	3
Net income before special provision for losses	1,679	1,430	1,262	1,169	300	107	983	965	529	712	512
Special provision for losses	–	–	–	–	–	–	–	–	–	–	(800)
Net income (loss)	$ 1,679	$ 1,430	$ 1,262	$ 1,169	$ 300	$ 107	$ 983	$ 965	$ 529	$ 712	$ (288)
Preferred share dividends	131	144	164	168	154	123	103	96	65	80	79
Net income available to common shareholders	$ 1,548	$ 1,286	$ 1,098	$ 1,001	$ 146	$ (16)	$ 880	$ 869	$ 464	$ 632	$ (367)

CONSOLIDATED STATEMENT OF CHANGES IN SHAREHOLDERS' EQUITY

FOR THE YEAR ENDED OCTOBER 31 ($ MILLIONS)	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Preferred shares											
Balance at beginning of year	$1,752	$1,990	$2,266	$2,248	$1,594	$1,661	$1,146	$1,151	$ 954	$1,012	$1,025
Issued	–	–	–	–	612	–	526	–	400	–	–
Converted	–	–	–	–	–	–	–	–	(187)	(44)	–
Redeemed and purchased for cancellation	–	(237)	(272)	–	–	(102)	(5)	(4)	(11)	(5)	(5)
Translation adjustment on shares issued in foreign currency	32	(1)	(4)	18	42	35	(6)	(1)	(5)	(9)	(8)
Balance at end of year	$1,784	$1,752	$1,990	$2,266	$2,248	$1,594	$1,661	$1,146	$1,151	$ 954	$1,012
Common shares											
Balance at beginning of year	$2,876	$2,910	$2,910	$2,910	$2,910	$2,726	$2,450	$2,309	$1,961	$1,545	$1,193
Issued	69	–	–	–	–	184	276	141	348	416	352
Purchased for cancellation	(38)	(34)	–	–	–	–	–	–	–	–	–
Balance at end of year	$2,907	$2,876	$2,910	$2,910	$2,910	$2,910	$2,726	$2,450	$2,309	$1,961	$1,545
Retained earnings											
Balance at beginning of year	$4,786	$4,132	$3,413	$2,772	$3,002	$3,375	$2,858	$2,323	$2,172	$1,807	$2,444
Adoption of Impaired Loans accounting standard	–	(75)	–	–	–	–	–	–	–	–	–
Balance at beginning of year as restated	4,786	4,057	3,413	2,772	3,002	3,375	2,858	2,323	2,172	1,807	2,444
Net income (loss)	1,679	1,430	1,262	1,169	300	107	983	965	529	712	(288)
Dividends – preferred	(131)	(144)	(164)	(168)	(154)	(123)	(103)	(96)	(65)	(80)	(79)
– common	(469)	(418)	(371)	(364)	(364)	(361)	(352)	(337)	(313)	(266)	(236)
Premium paid on common shares purchased for cancellation	(160)	(136)	–	–	–	–	–	–	–	–	–
Income taxes	–	–	–	–	–	–	–	–	–	–	(29)
Share issue costs	–	–	–	–	(11)	–	(8)	–	(6)	–	–
Unrealized foreign currency translation gains and losses	(6)	(3)	(8)	4	(1)	4	(3)	3	6	(1)	(5)
Balance at end of year	$ 5,699	$4,786	$4,132	$3,413	$2,772	$3,002	$3,375	$2,858	$2,323	$2,172	$1,807
Shareholders' equity at end of year	$10,390	$9,414	$9,032	$8,589	$7,930	$7,506	$7,762	$6,454	$5,783	$5,087	$4,364

RISK PROFILE

AS AT OCTOBER 31 ($ MILLIONS)	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Gross impaired loans											
Beginning of year	$2,376	$2,944	$4,424	$7,582	$7,056	$3,924	$4,203	$3,516	$3,549	$3,973	$3,333
Net additions/reductions	81	384	(255)	(1,128)	1,643	3,639	909	1,822	1,063	474	1,610
Writeoffs and translations	(638)	(952)	(1,225)	(2,030)	(1,117)	(507)	(1,188)	(1,135)	(1,096)	(898)	(970)
End of year	$1,819	$2,376	$2,944	$4,424	$7,582	$7,056	$3,924	$4,203	$3,516	$3,549	$3,973
Allowance for credit losses											
Specific provisions	$ 932	$1,091	$1,439	$1,962	$2,667	$1,867	$ 449	$ 451	$ 440	$ 582	$ 725
Country risk provision *(1)*	34	61	57	69	1,107	1,383	1,459	2,012	2,453	1,940	1,606
General provision	750	700	300	300	550	325	–	–	–	–	–
Total	$1,716	$1,852	$1,796	$2,331	$4,324	$3,575	$1,908	$2,463	$2,893	$2,522	$2,331
Net impaired loans											
Total	$ 103	$ 524	$ 1,148	$ 2,093	$ 3,258	$ 3,481	$ 2,016	$ 1,740	$ 623	$ 1,027	$ 1,642
Total loans and acceptances	166,828	143,214	125,877	121,591	122,771	105,874	105,554	103,063	93,940	87,320	76,519
As a percentage of total loans and acceptances	.1%	.4%	.9%	1.7%	2.7%	3.3%	1.9%	1.7%	.7%	1.2%	2.1%
Provision for credit losses											
Specific provisions	$330	$340	$580	$1,070	$1,775	$2,025	$ 705	$420	$ 280	$390	$ 900
Country risk provision	–	(300)	–	–	(250)	(300)	(100)	–	1,100	360	1,400
General provision	50	400	–	(250)	225	325	–	–	–	–	–
Total	$380	$440	$580	$ 820	$1,750	$2,050	$ 605	$420	$1,380	$750	$2,300
Average loans and acceptances	$154,412	$130,378	$121,459	$121,741	$108,562	$106,376	$105,231	$98,414	$89,772	$80,129	$73,938
As a percentage of average loans and acceptances	.25%	.34%	.48%	.67%	1.61%	1.93%	.57%	.43%	1.54%	.94%	3.11%
Coverage ratio, excluding LDCs	94%	77%	60%	52%	52%	41%	18%	25%	41%	36%	29%

(1) The country risk provision is shown net of that portion of the country risk provision that is in excess of impaired LDC loans in the amount of $402 million (1996 – $383 million; 1995 – $873 million; 1994 – $871 million; 1993 – $ nil; 1992 – $ nil; 1991 – $50 million; 1990 – $ nil; 1989 – $149 million; 1988 – $114 million; 1987 – $326 million).

QUARTERLY HIGHLIGHTS

($ MILLIONS, EXCEPT PER SHARE AMOUNTS; TAXABLE EQUIVALENT BASIS)	1997				1996			
	Q4	Q3	Q2	Q1	Q4	Q3	Q2	Q1
Statement of Income								
Net interest income	$1,289	$1,289	$1,212	$1,242	$1,221	$1,177	$1,142	$1,135
Other income	1,205	1,096	982	996	936	806	761	763
Provision for credit losses	(95)	(95)	(95)	(95)	(110)	(110)	(110)	(110)
Non-interest expenses	(1,656)	(1,539)	(1,407)	(1,451)	(1,429)	(1,274)	(1,223)	(1,186)
Income taxes	(273)	(302)	(272)	(275)	(225)	(231)	(217)	(237)
Non-controlling interest	(21)	(21)	(17)	(18)	(17)	(10)	(13)	(9)
Net income	$ 449	$ 428	$ 403	$ 399	$ 376	$ 358	$ 340	$ 356
Average assets *($ billions)*	$247.6	$240.9	$237.4	$ 232	$212.9	$209.7	$200.1	$196.7
Return on equity	19.7%	19.3%	19.4%	18.9%	17.9%	17.2%	17.0%	18.0%
Balance Sheet								
Assets								
Cash resources and securities	$ 54,429	$ 62,313	$ 64,713	$ 63,209	$ 67,057	$ 58,846	$ 61,921	$ 55,853
Residential mortgages	53,316	51,691	50,406	49,406	48,056	47,116	46,109	45,427
Personal loans	20,764	19,686	20,432	19,504	18,361	17,471	17,551	17,172
Credit cards	2,324	3,665	3,541	3,509	3,522	3,429	3,358	3,502
Business and government loans	61,221	58,275	56,479	54,262	54,406	52,453	51,064	49,175
Assets purchased under reverse repurchase agreements	18,642	15,952	22,473	10,875	11,446	7,172	4,620	5,577
Other assets	34,078	34,247	32,738	33,673	28,650	23,753	25,221	27,596
	$244,774	$245,829	$250,782	$234,438	$231,498	$210,240	$209,844	$204,302
Liabilities and shareholders' equity								
Personal deposits	$ 86,106	$ 87,102	$ 88,839	$89,760	$ 90,774	$ 90,385	$ 91,436	$ 90,796
Other deposits	87,123	80,132	82,029	70,654	71,043	59,932	58,387	54,464
Other liabilities	56,928	63,292	65,543	60,461	56,665	46,675	46,999	46,308
Subordinated debentures	4,227	5,215	4,549	4,003	3,602	3,643	3,636	3,541
Shareholders' equity	10,390	10,088	9,822	9,560	9,414	9,605	9,386	9,193
	$244,774	$245,829	$250,782	$234,438	$231,498	$210,240	$209,844	$204,302
Asset Quality								
Provision for credit losses								
Specific provisions	$45	$95	$95	$95	$ 10	$110	$110	$110
General provision	50	–	–	–	400	–	–	–
Country risk provision	–	–	–	–	(300)	–	–	–
	$95	$95	$95	$95	$110	$110	$110	$110
Net impaired loans	$103	$196	$220	$287	$524	$535	$633	$733
As a % of loans and acceptances	.1%	.1%	.1%	.2%	.4%	.4%	.5%	.6%
Capital Ratios								
Tier 1	6.8%	6.5%	6.5%	6.7%	7.0%	7.2%	7.0%	6.9%
Total	10.0%	9.5%	9.3%	9.1%	9.4%	9.9%	9.7%	9.6%
Common equity/risk-adjusted assets	5.8%	5.6%	5.7%	5.7%	6.0%	6.0%	5.8%	5.7%
Common Share Information								
Shares outstanding *(thousands)*								
end of period	308,335	308,316	308,293	308,738	310,529	314,160	314,155	314,155
average	308,325	308,305	308,288	310,685	314,017	314,157	314,155	314,155
Earnings per share	$1.35	$1.28	$1.20	$1.18	$1.09	$1.02	$.97	$1.01
Dividends per share	.39	.39	.37	.37	.34	.34	.34	.31
Book value per share	27.91	26.98	26.09	25.28	24.67	24.19	23.51	22.88
Common share information – High	76.45	68.40	63.00	51.10	44.40	34.70	33.50	33.38
Low	60.85	55.85	49.75	44.00	33.20	31.70	30.63	29.75
Close	75.35	66.15	55.85	49.80	44.30	33.25	32.25	33.13
Dividend yield	2.3%	2.5%	2.6%	3.1%	3.5%	4.1%	4.2%	3.9%
Dividend payout ratio	28.8%	30.4%	30.8%	31.3%	31.2%	33.2%	35.3%	30.5%

CONSOLIDATED REVENUES AND EXPENSES AS A PERCENTAGE OF AVERAGE ASSETS

	1997	1996	1995	1994	1993	1992	1991	1990	1989	1988	1987
Average assets *($ millions) (1)*	$239,500	$204,900	$183,800	$166,700	$142,500	$136,200	$130,100	$121,700	$112,700	$104,300	$100,400
Net interest income *(2)*	2.10%	2.28%	2.49%	2.72%	2.88%	2.93%	2.95%	2.97%	3.21%	3.17%	3.09%
Other income	1.79	1.59	1.49	1.71	1.72	1.54	1.50	1.43	1.47	1.29	1.08
Gross revenues	3.89	3.87	3.98	4.43	4.60	4.47	4.45	4.40	4.68	4.46	4.17
Provision for credit losses	(.16)	(.21)	(.32)	(.49)	(1.23)	(1.51)	(.47)	(.35)	(1.22)	(.72)	(.90)
	3.73	3.66	3.66	3.94	3.37	2.96	3.98	4.05	3.46	3.74	3.27
Non-interest expenses	(2.53)	(2.49)	(2.53)	(2.79)	(3.10)	(2.87)	(2.78)	(2.72)	(2.63)	(2.46)	(2.34)
	1.20	1.17	1.13	1.15	.27	.09	1.20	1.33	.83	1.28	.93
Income taxes *(2)*	(.47)	(.45)	(.43)	(.43)	(.04)	–	(.44)	(.53)	(.35)	(.59)	(.42)
Non-controlling interest in net income of subsidiaries	(.03)	(.02)	(.01)	(.02)	(.02)	(.01)	–	(.01)	(.01)	(.01)	–
Return on assets	.70%	.70%	.69%	.70%	.21%	.08%	.76%	.79%	.47%	.68%	.51%
Return on assets after preferred dividends	.65%	.63%	.60%	.60%	.10%	(.01)%	.68%	.71%	.41%	.61%	.43%
Common share information *(3)*											
Shares outstanding *(thousands) (4)*	308,335	310,529	314,155	314,155	314,155	314,155	306,460	293,267	286,674	265,300	236,010
Earnings (loss) per share *(5)*	$5.01	$4.09	$ 3.49	$ 3.19	$ .46	$(.05)	$ 2.92	$ 3.00	$ 1.64	$ 2.52	$ 1.89
Dividends per share	1.52	1.33	1.18	1.16	1.16	1.16	1.16	1.16	1.10	1.04	1.01
Common share price											
(6) High	76.45	44.40	31.38	31.88	28.88	29.00	27.50	25.69	24.38	18.25	19.44
(6) Low	44.00	29.75	25.88	25.13	22.00	21.50	20.50	19.75	16.88	13.06	12.81
(6) Close	75.35	44.30	30.13	28.38	27.25	24.13	27.00	20.75	24.25	18.00	13.88
Book value *(7)*	27.91	24.67	22.42	20.13	18.09	18.82	19.91	18.10	16.16	15.58	14.20
Price/earnings multiple *(8)*	12.0	9.1	8.2	8.9	–	–	8.2	7.6	12.5	6.2	8.5
Dividend yield *(9)*	2.5%	3.6%	4.1%	4.1%	4.6%	4.6%	4.8%	5.1%	5.3%	6.6%	6.3%
Dividend payout ratio *(10)*	30.3%	32.5%	33.8%	36.4%	–	–	40.0%	38.8%	67.4%	42.1%	54.5%
Return on equity *(11)*	19.3%	17.6%	16.6%	16.8%	2.4%	(.3)%	15.5%	17.5%	10.1%	17.2%	11.5%
Capital ratios *($ millions) (12)*											
Tier 1	$10,073	$ 9,037	$ 8,421	$ 7,660	$ 6,910	$ 6,740	$ 6,938	$5,712	$5,096		
Total	$14,705	$12,069	$11,913	$11,525	$10,941	$10,483	$10,686	$8,525	$7,634		
Total risk-adjusted assets	$147,672	$128,163	$121,350	$120,158	$117,043	$114,298	$113,975	$115,035	$106,218		
Tier 1 capital to risk-adjusted assets	6.8%	7.0%	6.9%	6.4%	5.9%	5.9%	6.1%	5.0%	4.8%		
Total capital to risk-adjusted assets	10.0%	9.4%	9.8%	9.6%	9.3%	9.2%	9.4%	7.4%	7.2%		
Other information											
Number of employees *(13)*	50,719	48,205	49,011	49,208	52,745	49,628	50,547	50,106	47,989	46,096	42,839
Automated banking machines	4,248	4,215	4,079	3,948	3,981	3,828	3,651	3,142	2,334	1,632	1,337
Service delivery units											
Domestic	1,453	1,493	1,577	1,596	1,731	1,661	1,645	1,617	1,560	1,513	1,467
International *(14)*	105	103	105	97	95	83	102	48	47	47	50
Total	1,558	1,596	1,682	1,693	1,826	1,744	1,747	1,665	1,607	1,560	1,517

(1) As the information is not reasonably determinable, amounts for years prior to 1995 have not been restated to reflect the presentation of derivative related amounts on a gross basis.

(2) Net interest income and income taxes are presented on a taxable equivalent basis.

(3) Common shares were split on a 2 for 1 basis in February 1990 and all related data has been restated accordingly.

(4) At October 31.

(5) Income and earnings per share figures for 1987 are stated before the special provision for losses on country lending. Adjusting these figures for the special provision results in a loss of $1.60 per share.

(6) High and low price of common shares traded on the Toronto Stock Exchange during the year and the closing price on the last trading day of October.

(7) Common shareholders' equity divided by common shares outstanding at October 31.

(8) Average of high and low common share price divided by earnings per share. The multiples for 1993 and 1992 are not meaningful.

(9) Dividends per common share divided by the average of high and low share price.

(10) Common dividends as a percentage of net income after preferred dividends. The ratios for 1993 and 1992 are not meaningful.

(11) Net income after taxes less preferred share dividends, divided by average common shareholders' equity.

(12) Commencing October 31, 1989, the bank has calculated its capital ratios in accordance with the capital adequacy guideline of the Superintendent of Financial Institutions Canada.

(13) On a full-time equivalent basis.

(14) International service delivery units since 1991 include (in addition to branches) representative offices, agencies and subsidiaries.

PRINCIPAL SUBSIDIARIES (1)	PRINCIPAL OFFICE ADDRESS (2)	CARRYING VALUE OF VOTING SHARES OWNED BY THE BANK (3)
Royal Bank Mortgage Corporation (4)	*Montreal, Canada*	$299
Royal Trust Corporation of Canada (4)	*Toronto, Canada*	819
The Royal Trust Company	*Montreal, Canada*	158
Royal Mutual Funds Inc.	*Toronto, Canada*	1
Royal Bank Action Direct Inc.	*Richmond Hill, Canada*	22
Royal Bank Holding Inc.	*Toronto, Canada*	9,722
Royal Bank DS Holding Inc.	*Toronto, Canada*	
RBC Dominion Securities Limited	*Toronto, Canada*	
RBC Dominion Securities Inc.	*Toronto, Canada*	
RBC Dominion Securities Corporation	*New York, U.S.A.*	
Royal Bank Realty Inc.	*Montreal, Canada*	
RBC Insurance Holdings Inc.	*Mississauga, Canada*	
Voyageur Insurance Company	*Brampton, Canada*	
Westbury Canadian Life Insurance Company	*Hamilton, Canada*	
Life Insurance Company of Royal Bank of Canada	*Mississauga, Canada*	
Royal Bank Export Finance Co. Ltd.	*Toronto, Canada*	
RT Investment Management Holdings Inc.	*Toronto, Canada*	
Royal Bank Investment Management Inc.	*Toronto, Canada*	
RT Capital Management Inc. (4)	*Toronto, Canada*	
3305988 Canada Inc.	*Toronto, Canada*	
Royal Bank Capital Corporation	*Toronto, Canada*	
R.B.C. Holdings (Bahamas) Limited	*Nassau, Bahamas*	
Royal Bank of Canada Trust Company (Bahamas) Limited	*Nassau, Bahamas*	
Multinational Services (Cayman) Limited (4)	*George Town, Grand Cayman*	
Finance Corporation of Bahamas Limited	*Nassau, Bahamas*	
Royal Bank of Canada (Asia) Limited	*Singapore*	
Investment Holdings (Cayman) Ltd.	*George Town, Grand Cayman*	
Royal Bank of Canada (Barbados) Limited	*Bridgetown, Barbados*	
Royal Bank of Canada Reinsurance (Cayman) Limited	*George Town, Grand Cayman*	448
Royal Bank of Canada Insurance Company Ltd.	*Bridgetown, Barbados*	
RBC Holdings (USA) Inc.	*New York, U.S.A.*	304
Royal Bank of Canada Financial Corporation	*Bridgetown, Barbados*	5
Atlantis Holdings Limited	*Bridgetown, Barbados*	350
RBC Finance B.V.	*Amsterdam, Netherlands*	1,260
Royal Bank of Canada (Suisse)	*Geneva, Switzerland*	
RBC Holdings (Channel Islands) Limited	*Guernsey, Channel Islands*	
Royal Bank of Canada (IOM) Limited	*Isle of Man*	
Royal Bank of Canada (Channel Islands) Limited	*Guernsey, Channel Islands*	
Royal Bank of Canada (Jersey) Limited	*Jersey, Channel Islands*	
Royal Bank of Canada Holdings (U.K.) Limited	*London, England*	
Royal Bank of Canada Europe Limited	*London, England*	
RBC Investment Management (Asia) Limited	*Hong Kong*	30
Royal Trust Bank (Asia) Limited (4)	*Singapore*	2

(1) *The bank owns 100% of the voting shares of each subsidiary, except RBC Dominion Securities Limited (80%) and Finance Corporation of Bahamas Limited (75%).*

(2) *The subsidiaries are incorporated under the laws of the country in which the principal office is situated, except for RT Investment Management Holdings Inc. incorporated under the laws of the province of Ontario, and RBC Holdings (USA) Inc. incorporated under the laws of the state of Delaware, U.S.A.*

(3) *The carrying value (in millions of dollars) of voting shares is stated as the bank's equity in such investments.*

(4) *The subsidiaries have outstanding non-voting shares of which the bank, directly or indirectly, owns 100%.*

Directors

JOHN E. CLEGHORN, F.C.A. (1987)
Toronto
Chairman and
Chief Executive Officer
Royal Bank of Canada

THEODORE M. ALLEN (1992)
Winnipeg
President and
Chairman of the Board
United Grain Growers Limited

* SIR JAMES BALL (1990)
London, England
Emeritus Professor
London Business School

JACQUES BOUGIE, O.C. (1991)
Montreal
President and
Chief Executive Officer
Alcan Aluminium Limited

RONALD L. CLIFF, C.M., F.C.A. (1987)
Vancouver
Chairman, President and
Chief Executive Officer
BC Gas Inc.

GEORGE A. COHON, O.C. (1988)
Toronto
Senior Chairman and Chairman of the Executive Committee
McDonald's Restaurants of Canada Limited

G.N. (MEL) COOPER, C.M., O.B.C. (1992)
Victoria
Chairman and
Chief Executive Officer
Seacoast Communications Group Inc.

JOHN R. EVANS, C.C., M.D. (1984)
Toronto
Chairman,
Alcan Aluminium Ltd. and
Chairman, Torstar Corporation

JOHN T. FERGUSON, F.C.A. (1990)
Edmonton
Chairman and
Chief Executive Officer
Princeton Developments Ltd.

L. YVES FORTIER, C.C., Q.C. (1992)
Montreal
Chairman
Ogilvy Renault

THE HON. PAULE GAUTHIER, P.C., O.C., Q.C. (1991)
Quebec City
Partner
Desjardins Ducharme Stein Monast

* CHARLES H. KNIGHT (1983)
Regina
Chief Executive Officer
Denro Holdings Ltd.

* THE HON. E. PETER LOUGHEED, P.C., C.C., Q.C. (1986)
Calgary
Senior Partner
Bennett Jones Verchere

G. WALLACE F. McCAIN, O.C. (1986)
Toronto
Chairman
Maple Leaf Foods Inc.

* DAWN R. McKEAG (1978)
Winnipeg
President
Walford Investments Ltd.

J. EDWARD NEWALL, O.C. (1984)
Calgary
Vice-Chairman and
Chief Executive Officer
NOVA Corporation

DAVID P. O'BRIEN (1996)
Calgary
Chairman, President and
Chief Executive Officer
Canadian Pacific Limited

ROBERT B. PETERSON (1992)
Toronto
Chairman, President and
Chief Executive Officer
Imperial Oil Limited

HARTLEY T. RICHARDSON (1996)
Winnipeg
President
James Richardson & Sons, Limited

KENNETH C. ROWE, F.C.I.S. (1985)
Halifax
Chairman and
Chief Executive Officer
I.M.P. Group International Inc.

GUY SAINT-PIERRE, O.C. (1990)
Montreal
Chairman of the Board
SNC-Lavalin Group Inc.

ROBERT T. STEWART (1988)
Vancouver
Company Director

ALLAN R. TAYLOR, O.C. (1983)
Toronto
Retired Chairman and
Chief Executive Officer
Royal Bank of Canada

JOHN A. TORY, Q.C. (1971)
Toronto
Deputy Chairman
The Thomson Corporation

SHEELAGH D. WHITTAKER (1993)
Toronto
President and
Chief Executive Officer
EDS Canada

VICTOR L. YOUNG, O.C. (1991)
St. John's
Chairman and
Chief Executive Officer
Fishery Products International Limited

* *Not standing for re-election on March 5, 1998*

The date appearing after the name of each director indicates the year in which the individual became a director. The term of office of each director will expire at the next annual meeting, scheduled for March 5, 1998.

Since November 1, 1991, the directors have held the principal occupations as listed, except Mr. John E. Cleghorn who, prior to January 26, 1995 was President and Chief Executive Officer and prior to November 1, 1994, was President and Chief Operating Officer of the bank, Mr. Ronald L. Cliff who, prior to September 1997, was Chairman of BC Gas Inc., Mr. John T. Ferguson who, prior to April 1996, was President and Chief Executive Officer of Princeton Developments Ltd., Mr. L. Yves Fortier who, prior to January 1992, was Canada's Ambassador and Permanent Representative to the United Nations, Mr. G. Wallace F. McCain who, prior to April 1995, was President of McCain Foods Limited, Mr. David P. O'Brien who, prior to May 1996, was President and Chief Operating Officer of Canadian Pacific Limited, prior to February 1995, was Chairman and Chief Executive Officer of Pan Canadian Petroleum Limited and prior to December 1994 was Chairman, President and Chief Executive Officer of Pan Canadian Petroleum Limited, Mr. Robert B. Peterson who, prior to July 1994, was Chairman and Chief Executive Officer and prior to September 1992 was President and Chief Operating Officer of Imperial Oil Limited, Mr. Hartley T. Richardson who, prior to April 1993, was President of the Real Estate Division of James Richardson & Sons, Limited, Mr. Kenneth C. Rowe who, prior to July 1997, was also President of I.M.P. Group International Inc., Mr. Guy Saint-Pierre who, prior to May 1996, was President and Chief Executive Officer of SNC-Lavalin Group Inc., Mr. Robert T. Stewart who, prior to January 1994, was Chairman, President and Chief Executive Officer of Scott Paper Limited, Mr. Allan R. Taylor who, prior to January 26, 1995, was Chairman of Royal Bank of Canada and prior to November 1, 1994 was Chairman and Chief Executive Officer and Ms. Sheelagh D. Whittaker who, prior to November 1993, was President and Chief Executive Officer of Canadian Satellite Communications Inc.

To the knowledge of the bank, the directors and senior officers, as a group, beneficially own or exercise control or direction over less than [1%] of the common shares of the bank. None of the directors or senior officers of the bank holds shares of its subsidiaries except where required for qualification as a director of a subsidiary and except with respect to RBC Dominion Securities Limited. To the knowledge of the bank, the senior officers of the bank, as a group, beneficially own or exercise control or direction over, less than [1.9%] of the outstanding Series One Participating shares ("P Shares") or [0.5%] of the votes attaching to all outstanding voting securities of RBC Dominion Securities Limited. The bank is required to have an audit committee (see page 105).

Annual Information Form

December 3, 1997

Incorporation

Royal Bank of Canada (the "bank") is a Schedule I bank under the *Bank Act*, and the Act is its charter. The head office is located at Royal Bank of Canada Building, 1 Place Ville-Marie, Montreal, Quebec, Canada.

Property

At October 31, 1997, the bank owned or leased 1,453 service delivery units in Canada and 105 units in 36 other countries. The bank also owns 7 central processing centres across Canada and major office complexes in Toronto and Ottawa. At October 31, 1997, the net book value of land and buildings worldwide totalled $910 million or .4% of total assets.

Additional Information

Additional information, including directors' and officers' remuneration and indebtedness, principal holders of securities, options to purchase securities, and interests of insiders in material transactions is contained in the bank's information circular for its most recent annual meeting of shareholders. Additional financial information is provided in the bank's comparative financial statements for the year ended October 31, 1997. The bank will provide to any person, upon request to the Vice-President of Investor Relations at 123 Front St. West, 6th Floor, Toronto, Ontario, M5J 2M2, a copy of this annual information form and any documents incorporated by reference, a copy of the comparative financial statements for the year ended October 31, 1997 together with the accompanying report of the auditors, a copy of any interim financial statements subsequent to the financial statements for the year ended October 31, 1997, and a copy of any other documents incorporated by reference in a preliminary short form prospectus or short form prospectus if securities of the bank are in the course of a distribution.

Documents Incorporated by Reference

Additional items comprising the bank's annual information form are disclosed in portions of this Annual Report and are incorporated by reference as set out below.

ITEM	REFERENCE
Principal subsidiaries	page 100
General development of the business	page 19
Narrative description of business and competitive conditions	pages 16-17 and 19-35
Impaired loans	Note 1, page 74; Note 5, page 80; table 14, page 49; table 15, page 50
Foreign loans	Note 4, page 79
Allowance for credit losses	Note 1, page 75; Note 5, page 80; page 49; table 16, page 51; table 17, page 52
Mortgage operations	table 8, page 43; table 15, page 50; table 16, page 51
Employees	page 4
Cash dividends	page 4; Note 11, page 84
Selected consolidated financial information	page 4
Quarterly financial information	page 98
Dividend policy	page 39
Management's discussion and analysis	pages 25, 27, 31, 35, 36-68
Market for securities of the bank	inside back cover
Directors	pages 101, 105
Officers	pages 106-107

Corporate Governance

Profound and rapid change in global markets has placed increasing demands on Canadian corporations as they face unprecedented competition. A strong and effective board of directors can play a key role in meeting this challenge.

The question of how corporations are governed is therefore one of widespread interest. It is of particular interest to shareholders, the legal owners of corporations, for it is on their behalf that the board supervises the management of the business and affairs of the corporation.

The question is, how can corporate governance practices be improved so as to increase board effectiveness?

Royal Bank has been examining this question in detail for many years and has long been pro-active in adopting industry-leading practices. In 1980, and again in 1993-94, special board committees reviewed the role of the Board of Directors. Their recommendations formed the basis of Royal Bank's corporate governance system – a set of principles, structures and processes that enables the board to carry out its responsibilities effectively, and to evaluate and further improve its own performance. In 1994, the [illegible] established the following principles upon which Royal Bank's governance system continues to evolve.

1 Royal Bank has been and intends to remain a leader in adopting best practices in corporate governance.

Royal Bank's system of governance is consistent with the Guidelines for Improved Corporate Governance of the Toronto and Montreal Stock Exchanges. But to serve the interests of shareholders and other stakeholders, corporate governance must improve continuously.

At Royal Bank, ensuring the effectiveness of the board is an on-going process, at the centre of which is a strong, independent Corporate Governance Committee.

The Committee advises and assists the board in applying the bank's existing corporate governance principles and practices. It monitors the effectiveness of the Board of Directors, its committees and individual directors.

The Committee also tracks developments in corporate governance and adapts best practices to the needs and circumstances of Royal Bank.

2 The directors must work as a cohesive team with shared responsibilities that are clearly defined, understood and respected.

The board supervises the management of the business and affairs of Royal Bank. Its mandate of duties and objectives includes:

- enhancing shareholder value;
- making major policy decisions for the bank;
- approving Royal Bank's strategic plan and overseeing its implementation;
- approving the operating plans, capital budgets and major capital expenditures;
- setting performance objectives and monitoring results;
- overseeing the planning of succession for senior management;
- approving compensation of senior officers and compensation policies for Royal Bank;
- identifying business risks and ensuring those risks will be managed;
- establishing investment and lending policies, standards and procedures;
- overseeing a policy for communications with shareholders, the investment community and the public;
- assessing the integrity of internal control and management information systems; and
- setting the dividend policy of Royal Bank.

The *Bank Act* specifies certain matters that must be dealt with by the board. The board has reserved the right to approve certain additional matters and has delegated to management other matters, including the authority to enter into various types of transactions, subject to specific limitations.

The board holds 10 regular meetings each year, as well as special meetings as required. Much of the work of the board is done through its committees, which report to the full board after each committee meeting.

3 The optimal size for the board represents a balance: there is a business need for strong geographical, professional and industry sector representation – and yet the board must be small enough to facilitate open and effective dialogue.

The Board of Directors has therefore adopted a goal to reduce the size of the board, over the next few years, from 22 directors to be nominated by management in March, 1998, to a number within the range of 18 to 21 directors.

This year, the board revised its tenure guidelines to provide that directors would not stand for re-election at the Annual Meeting following their 69th birthday.

The strength of the board is built upon the background, experience, qualities, skills and diversity of directors. Nominees are selected for their business judgment, integrity, ability to generate public confidence, business or professional activity and experience, international experience, knowledge of local, national and international issues, residency, and familiarity with a geographic region relevant to Royal Bank's strategic priorities.

Apart from these characteristics, regulatory requirements must be followed. The *Bank Act* provides that no more than two-thirds of the directors can be "affiliated" with the bank. Currently, fewer than one-third of the directors are "affiliated" within the meaning of the *Bank Act*.

In addition, the Exchange Guidelines state that a majority of directors should be "unrelated", as that term is defined in the Guidelines. In applying the principles underlying this definition, the Board of Directors first made the determination that any director who was "affiliated" (as defined in the *Bank Act*) with Royal Bank would be considered "related" for the purpose of the Exchange Guidelines. Based on this analysis and the definition of "unrelated" in the Exchange Guidelines and information provided by the directors as to their individual circumstances, it has been determined that the majority of the members of the Board of Directors are "unrelated" to Royal Bank.

4 The effectiveness of the board demands independence from management.

As the Exchange Guidelines note, there are different ways to ensure independence. One is to have a board chairman who is not a member of management. Another is to give a board committee or a director, sometimes called the "lead director", responsibility for ensuring that the board functions independently.

Royal Bank has adopted the second approach, giving this responsibility to the chairman of the Corporate Governance Committee and its members. The chairman of the Corporate Governance Committee serves as an informal liaison on corporate governance matters among the directors and between the board and senior management, and following each board meeting chairs meetings of non-management directors at which any concerns may be freely expressed.

This system protects board independence and at the same time allows the bank to retain the benefits of having a Chairman who is also Chief Executive Officer. The combination of the two positions means the Chairman of the Board has a more detailed knowledge of the business and activities of Royal Bank than would be possible for a chairman who was not a member of management. This is consistent with general practices within the banking industry in North America.

The independence of the board from management is further protected in the following ways:

- board policy permits no more than two directors from management. Of the 26 members of the board as of October 31, 1997, only one is an executive of the bank (the CEO) and one is a former officer of the bank;
- management directors do not serve as members of any board committee;
- a majority of the directors on each committee are both "unaffiliated" and "unrelated";
- the *Bank Act* and the Board of Directors itself impose requirements on the directors regarding conflicts of interest and related party transactions and directors must disclose their interest in and refrain from voting in respect of material contracts with Royal Bank;
- the Human Resources Committee and the board select and annually evaluate the CEO, and determine the CEO's compensation. The board is also responsible for succession planning for senior management, and approves their remuneration. In this way the CEO and other members of senior management are accountable to the board;
- to align the interests of directors and shareholders, directors' retainers are paid in shares until they own Royal Bank stock with a value equal to six times their annual retainer; and
- the board has adopted a policy that enables an individual director, with the consent of the chairman of the Corporate Governance Committee, to engage an outside advisor at the expense of the bank.

5 Effective decision making can take place only in an environment of quality information.

The board must have timely access to the knowledge and information it needs to carry out its responsibilities. To ensure this:

- an on-going education program has been developed for all directors with a focus on the corporate governance system and the roles and responsibilities of the board;
- each new director is presented with a Director's Guide and has an opportunity to meet with senior management to discuss the activities of Royal Bank;
- directors receive a weekly package of information with press releases, articles, videos and analysts' reports on Royal Bank and the financial services industry;
- prior to each board meeting, the directors receive a comprehensive information package including the agenda, minutes of the previous meeting, presentations and other information on items to be discussed at the meeting;
- the board utilizes a consent agenda process for routine matters in order to free up the board's time for matters of strategic importance;
- directors attend seminars relating to banking and the financial services industry; and
- annual off-site sessions are held where directors review and assess Royal Bank's strategic direction. These meetings are attended by the full board and the heads of the bank's business units.

The same commitment to excellence and timeliness in communication is made by Royal Bank to its shareholders. Royal Bank's investor relations department provides information to potential and existing investors and responds to investor inquiries and concerns. It is the policy of Royal Bank that every shareholder inquiry receive a prompt response from an appropriate officer. The Chief Executive Officer, the Chief Financial Officer and other senior executives also meet periodically with financial analysts and institutional investors.

Mandates and Activities of Board Committees

The board committees are described below:

Audit Committee

- reviews matters prescribed by the *Bank Act*, including annual and quarterly statements, and returns specified by the Superintendent of Financial Institutions;
- reviews investments and transactions that could adversely affect the well-being of Royal Bank;
- reviews prospectuses and offering documents relating to the issue of shares and subordinated indebtedness;
- meets separately with the shareholders' auditors, the chief internal auditor and senior management, to monitor the effectiveness of the internal control procedures and management information systems, controls, procedures and accounting practices;
- reviews measures implemented to ensure compliance with the Canada Deposit Insurance Corporation ("CDIC") Internal Control Standards, which include guidelines on information technology controls, valuation policies and procedures, safeguarding controls, accounting and record keeping controls, management information systems, and independent inspections and audits; and
- reviews and approves policies related to liquidity management and capital management as provided for in the related CDIC Standards and the Standards Assessment and Reporting Program concerning adherence to these CDIC Standards.

Members: Sir James Ball, R.L. Cliff (Chair), L.Y. Fortier, G.W.F. McCain, J.E. Newall, K.C. Rowe

Conduct Review Committee

- ensures that procedures are established to review transactions with "related parties" of Royal Bank and that these transactions meet market terms and conditions;
- ensures that any of these transactions having a material effect on the stability or solvency of the bank are identified; and
- establishes and monitors procedures for disclosing information to customers, restricting the use of confidential information, dealing with complaints, and resolving conflicts of interest.

Members: T.M. Allen, J.T. Ferguson, C.H. Knight, R.B. Peterson (Chair), G. Saint-Pierre, R.T. Stewart

Corporate Governance Committee

- is responsible for the development and maintenance of Royal Bank's corporate governance practices;
- reviews the credentials and performance of each of the directors standing for re-election;
- identifies and recommends to the board candidates suitable for nomination as directors;
- assesses the performance of the Board of Directors and its committees. As part of this process, the directors periodically complete a written evaluation of the performance of the board;
- works with management to develop a "forward agenda", of subjects to be discussed at board and committee meetings over the coming year;
- reviews the amount and the form of compensation of directors and makes recommendations for appropriate adjustments; and
- advises management in the planning of the annual strategic meeting attended by the directors and senior management.

Members: J. Bougie, J.R. Evans (Chair), L.Y. Fortier, E.P. Lougheed, D.R. McKeag, J.A. Tory, V.L. Young

Human Resources Committee

- reviews and approves principles for the recruitment, hiring, training, compensation and evaluation of employees;
- reviews Royal Bank's pension plan performance;
- reviews management succession plans for executive officers;
- reviews the major compensation policies of Royal Bank and recommends to the board the incentive programs for executives;
- reviews the position description for the CEO and approves the corporate objectives the CEO is responsible for meeting;
- selects and annually evaluates the performance of the CEO;
- recommends to the board the remuneration of the CEO and of certain other senior executive officers.

Members: J. Bougie, D.P. O'Brien, H.T. Richardson, J.A. Tory (Chair), S.D. Whittaker, V.L. Young

Public Policy Committee

- ensures the business of Royal Bank is conducted in an ethical and socially responsible way;
- oversees Royal Bank's communications policy, including processes for communicating with customers, employees, shareholders and the community;
- reviews the policies designed to create a positive corporate image;
- reviews Royal Bank's charitable contributions policy. Members of the Committee are also directors of Royal Bank of Canada Charitable Foundation.

Members: G.A. Cohon, G.N. Cooper, P. Gauthier (Chair), D.R. McKeag, A.R. Taylor

Risk Policy Committee

- establishes lending and investment policies, standards and procedures;
- reviews the policies, standards and procedures for the management of key risks;
- reviews loans which involve directors;
- approves policies related to the management of credit risk and Royal Bank's securities portfolio;
- reviews trends in portfolio quality and the adequacy of provisions for credit losses;
- reviews the credit risk management, real estate appraisal and foreign exchange and interest rate risk management policies and programs to ensure they meet CDIC standards; and
- reviews and approves the Standards Assessment and Reporting Program to ensure it meets CDIC standards.

Members: T.M. Allen, J.T. Ferguson, C.H. Knight, R.B. Peterson (Chair), G. Saint-Pierre, R.T. Stewart

Executive Officers

Group office

JOHN E. CLEGHORN
Chairman &
Chief Executive Officer
Toronto

J. EMILIEN BOLDUC
Vice-Chairman
Montreal

GORDON J. FEENEY
Vice-Chairman
Toronto

ANTHONY S. FELL
Vice-Chairman
Toronto

BRUCE C. GALLOWAY
Vice-Chairman
Toronto

ROBERT J. SUTHERLAND
Vice-Chairman
Toronto

PETER W. CURRIE
Executive Vice-President &
Chief Financial Officer
Toronto

Businesses

Personal Financial Services

JIM T. RAGER
Executive Vice-President
Toronto

ELISABETTA BIGSBY
Senior Vice-President
Products
Toronto

JUDITH M.S. HATLEY
Senior Vice-President
Sales
Toronto

SHAUNEEN E. BRUDER
Senior Vice-President
Marketing
Toronto

with an executive office also in
Montreal, Quebec

Card Services

MARK K. TONNESEN
Executive Vice-President
Toronto

JANE S. FERSHKO
Senior Vice-President
Toronto

RBC Insurance Holdings Inc.

W. JAMES WESTLAKE
President &
Chief Executive Officer
Mississauga, Ont.

Business Banking

CHARLES S. COFFEY
Executive Vice-President
Toronto

GEORGE A.A. DICKSON
Senior Vice-President
Product Management
Toronto

ED J. LUNDY
Senior Vice-President
Toronto

ANNE L.B. SUTHERLAND
Senior Vice-President
Small & Medium
Size Businesses
Toronto

with an executive office also in
Winnipeg

Royal Trust

ANTHONY A. WEBB
President &
Chief Executive Officer
Toronto

GREG R. BRIGHT
Senior Vice-President
Wealth Management
Toronto

Global Private Banking

MICHAEL J. LAGOPOULOS
Senior Vice-President
Global Private Banking
Toronto

with executive offices also in
Miami, Florida
Geneva, Switzerland,
Singapore,
Guernsey and
Jersey, Channel Islands

Global Securities Services

DAVID W.S. DUNLOP
Senior Vice-President
Global Securities Services
Toronto

with executive offices also in
Calgary, Alta
London, Ont.
Montreal, Que
Ottawa, Ont
Vancouver, B.C.
and London, England

Royal Trust Investment Management

B. LEE BENTLEY
President &
Chief Executive Officer
Toronto

Royal Mutual Funds Inc.

SIMON LEWIS
President
Toronto

RBC Dominion Securities Inc.

ANTHONY S. FELL
Chairman &
Chief Executive Officer
Toronto

W. REAY MACKAY
President
Chief Operating Officer
Toronto

BRYCE W. DOUGLAS
Deputy Chairman
Toronto

CHARLES M. WINOGRAD
Deputy Chairman
Toronto

with executive offices also in
London, England,
Singapore,
Honk Kong and
Tokyo, Japan

RBC Dominion Securities Corporation

GORDON M. RITCHIE
President &
Chief Executive Officer
New York

Royal Bank Action Direct Inc.

MICHAEL A. BASTIAN
President &
Chief Executive Officer
Richmond Hill, Ont.

Corporate Banking

BERNIE SCHRODER
Executive Vice-President
Toronto

MARK R. HUGHES
Senior Vice-President
Financial Services
Toronto

WALTER MURRAY
Senior Vice-President

with executive offices also in
Calgary,
Montreal and
Vancouver

Financial Institutions and Trade

MICHAEL K. TAYLOR
Senior Vice-President
Toronto

Geographies – Canada

Alberta

GORD G. TALLMAN
Senior Vice-President &
General Manager
Calgary

with an executive office also in
Edmonton

Atlantic

CLAY J. COVEYDUCK
Senior Vice-President &
General Manager
Halifax

with executive offices also in
Saint John and
St. John's

British Columbia & Yukon

ROD S. PENNYCOOK
Senior Vice-President &
General Manager
Vancouver

with executive offices also in
Langley,
New Westminster,
Prince George and
Victoria

Manitoba

DENNICE M. LEAHEY
Senior Vice-President &
General Manager
Winnipeg

Metropolitan Toronto

GEORGE F. GAFFNEY
Executive Vice-President &
General Manager
Toronto

with executive offices also in
Etobicoke,
Mississauga,
North York,
Richmond Hill, and
Scarborough, Ontario

Ontario (outside Toronto)

PAM G. PITZ
Senior Vice-President &
General Manager
Burlington

with executive offices also in
Kitchener,
London, and
Ottawa, Ontario

Quebec

MONIQUE F. LEROUX
Senior Vice-President &
General Manager
Montreal

with executive offices also in
Quebec City

Saskatchewan

ANNE LOCKIE
Senior Vice-President &
General Manager
Regina

Geographies – International

Asia

J. PHILIP W. BREWSTER
Senior Vice-President &
General Manager
Singapore

with executive offices also in
Hong Kong,
Shanghai, China,
Seoul, Korea,
Taipei, Taiwan, and
Tokyo, Japan

Caribbean

DAVID C. GALE
Vice-President
Bahamas and Cayman
Nassau, Bahamas

C. DOUG MALONEY
Vice-President
Barbados and
Eastern Caribbean
Bridgetown, Barbados

Europe

RONALD E. STANLEY
Senior Vice-President &
General Manager
London, England

with an executive office also in
Paris, France

Latin America

ALAN A. BOWBYES
Senior Vice-President &
General Manager
Toronto

with executive offices also in
Mexico City, Mexico and
Sao Paulo, Brazil

U.S.A.

DAVID L. ROBERTSON
Senior Vice-President &
General Manager
New York

with executive offices also in
Chicago, Los Angeles and
Houston

Functions

Corporate Affairs

BRYAN P. DAVIES
Senior Vice-President
Toronto

Corporate Secretary

JANE E. LAWSON
Senior Vice-President &
Corporate Secretary
Toronto

Corporate Treasury

SUZANNE B. LABARGE
Executive Vice-President
Toronto

BRYAN P. GRIFFITHS
Senior Vice-President
Funding, Liquidity &
Portfolio Management
Toronto

Finance & Audit

PETER W. CURRIE
Executive Vice-President &
Chief Financial Officer
Toronto

JANICE FUKAKUSA
Senior Vice-President &
Chief Internal Auditor
Toronto

JOHN MERRIAM
Senior Vice-President
Finance
Toronto

Human Resources

E. GAY MITCHELL
Executive Vice-President
Toronto

JIM J. GANNON
Senior Vice-President
Human Resource Development
Toronto

PETER H. TUCKER
Senior Vice-President
Compensation & Organization
Toronto

Law

TED K. WEIR
Senior Vice-President &
General Counsel
Toronto

Ombudsman

VERNE G. MCKAY
Senior Vice-President
Toronto

Operations & Service Delivery

DON A. BERARDINUCCI
Executive Vice-President
Toronto

ROBERT H. AYLWARD
Senior Vice-President
Strategic Sourcing
Toronto

A. ROGER CREASOR
Senior Vice-President
Service Delivery
Toronto

HAROLD E. ELSIE
Senior Vice-President
Operations
Toronto

PIERRE LEBRUN
Senior Vice-President
Delivery Channel Management
Toronto

Real Estate Operations

RON A. MASLECK
Senior Vice-President
Toronto

Risk Management

MURRAY A. CORLETT
Executive Vice-President
Toronto

NORM C. ACHEN
Senior Vice-President
New York

FRANCINE P. BLACKBURN
Senior Vice-President
Toronto

RONALD J.J. CATHCART
Senior Vice-President
Toronto

DAVID W. DOUGHERTY
Senior Vice-President
Toronto

MORTEN N. FRIIS
Senior Vice-President
Toronto

DONALD A.B. GRAHAM
Senior Vice-President
Singapore

R.G. (BOB) HALL
Senior Vice-President
Toronto

JOHN MCCALLUM
Senior Vice-President &
Chief Economist
Toronto

GEZA P.Z. TATRALLYAY
Senior Vice-President
London, England

Strategic Development

JIM C. WALZ
Senior Vice-President
Toronto

Strategic Investments

DON S. WELLS
Executive Vice-President
Montreal

Systems & Technology

MARTIN J. LIPPERT
Executive Vice-President &
Chief Information Officer
Toronto

J. DOUG DIXON
Senior Vice-President
Personal Client Technology
Toronto

BOB M. JUNEAU
Senior Vice-President
& Deputy
Toronto

JOHN K. TRUMAN
Senior Vice-President
Business Client Technology &
New Business Ventures
Toronto

MIKE H. VELSHI
Senior Vice-President &
Chief Technology Officer
Toronto

All of the officers of the bank have been engaged for more than five years in various capacities in the affairs of the bank, Royal Trust and their affiliates except P.W. Currie, who prior to April 1997 was Senior Vice-President & Chief Financial Officer, Northern Telecom Limited, Brampton; B.P. Davies, who prior to May 1994 was Vice-president, Business Affairs & Chief Administration Officer, University of Toronto; S.B. Labarge, who prior to April 1995 was Deputy Superintendent, Deposit-Taking Institutions Sector, Office of the Superintendent of Financial Institutions, Ottawa; M.F. Leroux, who prior to July 1995 was a Partner & Associate with Caron, Belanger, Ernst & Young, Montreal; M.J. Lippert, who prior to August 1997 was Executive Vice-President, Information Management & Research Department, Mellon Bank Corporation, Pittsburgh, Pennsylvania; J. McCallum, who prior to June 1994 was Dean, Faculty of Arts, McGill University; M.K. Tonnesen, who prior to February 1997 was Chief Development Officer, Banc One Corporation, Columbus, Ohio; E.K. Weir, who prior to September 1994 was a Senior Partner with McMillan Binch, Toronto; W.J. Westlake, who prior to January 1995 was Vice-president & Chief Operating Officer, Metropolitan Life Insurance Company, Toronto.

serving diverse groups

Royal Bank believes that positive results for shareholders are ultimately determined by the quality of relationship the bank maintains with its other key stakeholders: clients, employees and the communities it serves. We believe that corporations committed to the positive well-being of these key stakeholders will also deliver the best returns to their shareholders. This page highlights Royal Bank's commitment to its other stakeholders.

DESIGN Nolin Larosée Design Communications, Montreal COVER ILLUSTRATION Linda Frichtel TYPOGRAPHY Centre Typo, Montreal PRINTING Litho Acme, Montreal

clients

Royal Bank's success is dependent on the satisfaction and loyalty of its clients. To meet the ever-changing needs of our 10 million customers, we are raising the targets for customer satisfaction by providing our employees with the training, technology and the time to devote care and attention to their clients. We are investing in new products, services and delivery channels and conducting acquisitions to provide our customers with the most comprehensive offering of products and services that meet their needs for speed, convenience and returns. Clients today have more choices than ever before for their financial services needs. By investing in new initiatives in each of the bank's three major business segments (see review by business segment, pages 22-35, of this report), Royal Bank believes it can continue to deliver leading-edge financial services to its clients.

employees

Royal Bank believes that building a mutually rewarding partnership which lets people meet their workplace goals will permit us to meet our business goals. In addition to leading edge Work/Family/Life, diversity and gender gap policies and programs, in 1997, the bank invested more than $100 million on employee development programs to ensure that it can meet the changing needs of its clients. Royal Bank employees, in addition to being front line contact for our customers, are also shareholders committed to the success of the bank. 94% of management employees and 89% of total employees own shares in Royal Bank through participation in the *Royal Employee Savings and Share Ownership Plan*. All employees are also eligible for variable compensation through a Quality Performance Incentive plan, based on employee performance and the bank's return on equity, revenue growth, customer satisfaction and employee commitment.

communities

Employer, taxpayer, goods and services buyer, corporate donor. These are a few of the ways Royal Bank is involved in the communities it serves. In 1997, the bank employed 58,000 people with a direct payroll of $3.4 billion, purchased more than $1.8 billion in goods and services, and paid more than $1.5 billion in income and other taxes. The bank also donated $18 million to 2,400 charities across Canada, primarily in health and welfare, education and federated appeals. In addition to spending many volunteer hours in their communities, Royal Bank employees donated in excess of $3 million to the Royal Bank Employee Charitable Trust Fund which benefits United Way, Centraide and other select organizations.

Never rest on success. In 1997, Royal Bank won the Valuing Differences Award for Leveraging Diversity for Enhanced Performance in the Marketplace from the prestigious American Society for Training and Development. But, we continue to raise our sights and have set 6 objectives and 15 actions in motion to meet our vision of Many People, One Team: Growth and Prosperity through Diversity.

Annual Meeting

The Annual Meeting of common shareholders will be held on March 5, 1998 at 10:30 a.m. (Eastern time) in the Canadian Room of the Royal York Hotel, 100 Front Street West, Toronto, Ontario.

Transfer Agent and Registrar

Main Agent

Montreal Trust Company of Canada

Mailing address:
P.O. Box 890, Station "B"
Montreal, Quebec
Canada H3B 3K5

Street address:
1800 McGill College Avenue
Montreal, Quebec
Canada, H3A 3K9
Tel: (514) 982-7555
Fax: (514) 982-7635
Telex: 055-61286

Co-transfer agents (Canada)

Montreal Trust Company of Canada
1465 Brenton St., 5th Floor
Halifax, N.S. B3J 3S9

151 Front Street W., 8th Floor
Toronto, Ont. M5J 2N1

Western Gas Tower
530 – 8th Avenue S.W.,
6th Floor,
Calgary, Alta. T2P 3S8

Scotia Centre
1783 Hamilton St., Suite 660
Regina, Sask. S4P 2B6

Mezzanine Level
200 Portage Avenue
Winnipeg, Man. R3C 3X2

510 Burrard Street
Vancouver, B.C. V6C 3B9

Co-transfer agent (U.S.A.)

The Bank of New York
101 Barclay Street
New York, N.Y. 10286

Co-transfer agent (United Kingdom)

The Royal Bank of Scotland plc
Securities Services – Registrars
P.O. Box No. 82,
Caxton House,
Redcliffe Way, Bristol
BS99 7NH
England

Stock Exchange Listings

(Symbol: RY)

Common Shares listed on:

Canada:
Montreal, Toronto, Vancouver, Winnipeg and Alberta Stock Exchanges

U.S.A.:
New York Stock Exchange

Switzerland:
Electronic Stock Exchange (EBS)

U.K.:
London Stock Exchange

All Preferred shares are listed on the Toronto and Montreal Stock Exchanges.

Certain deposit notes and subordinated debentures are listed on the London and Luxembourg Stock Exchanges and are quoted on Reuters.

Shareholders may have their dividends deposited by electronic funds transfer directly to an account at any financial institution that is a member of the Canadian Payments Association. To arrange for this, please write to Montreal Trust Company of Canada at their mailing address.

Institutional Investor, broker and security analyst contact

Institutional investors, brokers and security analysts requiring financial information should contact the Vice-President, Investor Relations, by writing to 123 Front Street West, 6th Floor, Toronto, Ontario M5J 2M2 or by calling (416) 955-7803 or by fax to (416) 955-7800.

Dividend Dates for 1998

Subject to approval by the Board of Directors.

	RECORD DATES	PAYMENT DATES
COMMON SHARES AND PREFERRED SHARES SERIES H, I, J AND K	*Jan. 26* *Apr. 24* *Jul. 27* *Oct. 26*	*Feb. 24* *May 22* *Aug. 24* *Nov. 24*
PREFERRED SHARES SERIES F AND G	*Jan. 12* *Apr. 9* *Jul. 10* *Oct. 12*	*Jan. 30* *Apr. 30* *Jul. 31* *Oct. 30*
PREFERRED SHARES SERIES E	*Last trading day of each month*	*12th day of the following month*

Valuation Day Price

For capital gains purposes, the Valuation Day (December 22, 1971) cost base for the bank's common shares, adjusted for prior stock splits, is $7.38 per share.

Shareholder Contact

For change of address, shareholders are requested to write to the bank's transfer agent, Montreal Trust Company of Canada, at their mailing address, and for dividend information and estate transfers, shareholders are requested to call the Transfer Agent at (514) 982-7555.

Other shareholder inquiries may be directed to our Investor Relations Department, by writing to 123 Front Street West, 6th Floor, Toronto, Ontario M5J 2M2 or by calling (416) 955-7806.

Principal addresses:

Montreal street address:
1 Place Ville Marie
Montreal, Quebec, Canada
Tel: (514) 874-2110
Fax: (514) 874-6582
Telex: 055-61086

Montreal mailing address:
Royal Bank of Canada
P.O. Box 6001, Montreal,
Quebec, Canada H3C 3A9

Toronto street address:
Royal Bank of Canada
200 Bay Street
Toronto, Ontario, Canada
Tel: (416) 974-5151
Fax: (416) 955-7800

Toronto mailing address:
P.O. Box 1, Royal Bank Plaza
Toronto, Ontario, Canada
M5J 2J5

Internet:

http://www.royalbank.com/

La Banque Royale publie son Rapport annuel en français et en anglais

Legal Deposit, 4th quarter 1997
Bibliothèque nationale du Québec

This annual report is printed with vegetable-based ink, on acid-free paper containing recycled material, including at least 20% post-consumer waste. The entire book is recyclable and the glue in the binding is recoverable.

Please recycle

Royal Bank's 1997 Ombudsman Annual Report is available through Royal Bank branches and business banking centres, Royal Trust branches, by telephone (1-800-ROYAL-4-2) or by fax request (416-974-4591).

ROYAL BANK
OF CANADA

raising our sights... reaching new heights

The theme of this annual report depicts a mind-set which is prevalent throughout our organization — despite our leadership position and long string of successes, we are never content to stand still.